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COVER NOTE

From:	Mr Klaus TRÖMEL, Secretary-General of the European Investment Bank
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

Subject:	EIB Evaluation of the functioning of EFSI
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Delegations will find attached the European Investment Bank's evaluation of the functioning of the European Fund for Strategic Investments (EFSI).



Operations Evaluation

Evaluation of the functioning of the
European Fund for Strategic Investments (EFSI)

September 2016

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ABBREVIATIONS AND ACRONYMS

3PA	3 Pillar Assessment methodology
CE	Catalytic Effect
CEF	Connecting Europe Facility
COSME	EU programme for the Competitiveness of Enterprises and SMEs
CS	Corporate Services
DMD	Deputy Managing Director
EaSI	EU Programme for Employment and Social Innovation
EC	European Commission
EFSI	European Fund for Strategic Investments
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIB Group	European Investment Bank and European Investment Fund
EIF	European Investment Fund
EIPP	European Investment Project Portal
EM	External Multiplier
ERR	Economic Rate of Return
ESIF	European Structural and Investment Funds
EU	European Union
EV	Operations Evaluation
FLP	First Loss Piece
H2020	Horizon 2020
IPE	Investment Plan for Europe
IW	Infrastructure and Innovation Window
IC	Investment Committee
IM	Internal Multiplier
InnovFin	EU Finance for Innovators
JU	Legal Directorate
KMI	Key Monitoring Indicators
KPI	Key Performance Indicators
LGF	Loan Guarantee Facility
MBIL	Multi-Beneficiary Intermediated Loan
MD	Managing Director
NPB	National Promotional Bank
NPI	National Promotional Institution
NPST	New Products and Special Transactions
OPS	Operations Directorate
PE	Private Equity
PJ	Projects Directorate
RCR	Risk Capital Resources
RM	Risk Management Directorate
SB	Steering Board
SG	General Secretariat
SMEs	Small and Medium-Sized Enterprises
SMEG	SME Guarantee Facility
SMEW	SME Window
TMR	Transaction Management Restructuring Directorate
VC	Venture Capital
VP	Vice President

EXECUTIVE SUMMARY

The Investment Plan for Europe (IPE), adopted in November 2014 as the first major initiative of the Juncker Commission, seeks to reduce investment gaps in Europe. As part of the IPE, the European Fund for Strategic Investments (EFSI) aims to contribute to this goal by supporting investments and increasing access to finance for SMEs and mid-cap companies. EFSI's dual objective is reflected in its two windows: the Infrastructure and Innovation Window (IIW), implemented by the European Investment Bank (EIB); and the SME Window (SMEW), implemented by the European Investment Fund (EIF).

EFSI's financial structure comprises a guarantee of EUR 16 bn provided to the EIB Group by the EU, and a capital contribution of EUR 5 bn provided by the EIB. These financial resources supply risk-bearing capacity to the EIB Group, allowing the Group to finance projects that address market failures or sub-optimal investment situations which could not have been carried out in the same period, or not to the same extent, without EFSI support. It is also expected that EFSI would allow the EIB Group to finance more high-risk projects or riskier tranches of projects.

EFSI is expected to crowd in other investors and, in doing so, aims to mobilise EUR 315 bn of additional investment in the real economy over a three-year period (mid-2015 to mid-2018). This includes both investment and SME access to finance. To reach this target, EFSI's portfolio should on average have a multiplier of x15: EUR 1 of EFSI support should eventually trigger EUR 15 of investment in the real economy.

This evaluation assesses the functioning of EFSI to date and identifies aspects that could improve its future functioning. Yet it is too early for this evaluation to provide a definitive judgment on the performance of EFSI.

This evaluation is a requirement of the EFSI Regulation, adopted in July 2015, and has been carried out by the EIB's Evaluation Division (EV) as part of its Work Programme for 2016 as approved by the EIB Board of Directors.

EFSI is in place and on track to deliver its investment target

Through the joint efforts of the European Commission (EC) and the EIB Group, EFSI was prepared, launched and ramped up in a short period of time. EFSI was able to do so as it relied on the existing structure and organisation of the EIB Group. For instance, prior to the EFSI Regulation being agreed, the EIB and the EIF were requested to warehouse projects from their existing pipelines. In the case of the EIF, it was able to use existing mandates provided by the EC and the EIB.

The EIB and the EIF also developed a range of new products with a riskier profile and a higher multiplier. These products are complementary to their existing set of products and are currently being rolled out.

Both organisations have substantially increased and continue to increase their staff numbers to deliver EFSI. In addition, they have adapted procedures, processes, internal systems and their organisation to accommodate EFSI.

By the end of 2015, EFSI's governance structure was in place as foreseen in the EFSI Regulation and is supporting the efficient implementation of EFSI. The structure consists of: the Steering Board (SB), the Managing Director (MD), the Deputy MD, and the Investment Committee (IC).

In terms of approvals, for the period ending 30 June 2016 (i.e. one-third of the way into its investment period), EFSI had achieved about one-third of its total investment target: EUR 17.45 bn of approved financing under EFSI is expected to mobilise EUR 104.75 bn of total investment. Signatures stood at EUR 10.45 bn, and are expected to mobilise EUR 66.14 bn of total investment.

With regard to total investment mobilised, there are marked differences between the IIW and the SMEW. This is explained by the fact that the SMEW was able to use existing mandates (InnovFin SMEG, COSME LGF and the RCR mandate) to bring forward investments (in line with the definition of additionality in the EFSI

Regulation). Moreover, the EIF's debt-type operations typically generate higher multipliers than those of the EIB.

Although at an early stage, the EIB and the EIF are actively collaborating with EC programmes and financial instruments to ensure complementarity and create synergies. Cooperation is also increasingly being established with National Promotional Banks and National Promotional Institutions, with whom several operations have been signed and a project pipeline is gradually developing.

If past trends continue, and if the EFSI strategy in terms of new products and new forms of cooperation materialises, it can be expected that EFSI's target for total investment will be reached in terms of approvals.

Areas for improvement after a year of implementation

To ensure that reaching the total investment target of EUR 315 bn translates into achieving the objective of reducing investment gaps, the IPE and the EFSI Regulation define a series of principles, concepts and tools that have been made operational. Further to the experience gained in EFSI's first year of implementation, it is suggested that some of these areas could benefit from further reflection.

(1) The evaluation finds that the benefits of complementarity between the different IPE Pillars are still incipient, mainly because Pillar 2 (focused on advisory services and information sharing) has only kicked off recently, while Pillar 3 (focused on the regulatory environment, structural reforms and removal of barriers to investment) has made only moderate progress to date. Increased complementarity between these Pillars would facilitate EFSI's implementation and, therefore, better enable IPE to achieve its objectives. Yet, while the EIB Group may influence the EIAH (which it manages on behalf of the EC), it has limited influence on the rest of Pillar 2 and Pillar 3.

(2) As recital 13 of the EFSI Regulation states that "EFSI should seek to contribute to strengthening the Union's...economic, social and territorial cohesion", it is concerning that EFSI's aggregated portfolio is highly concentrated (92%) in the EU15,

and under-serves (8%) the EU13. This is particularly problematic as most of the less-developed regions in Europe are found in the EU13's Central and Eastern European countries. This evaluation can only propose hypotheses for the causes of the geographical concentration of EFSI operations at this stage. For instance, EFSI's eligible sectors, as detailed in Article 9(2) of the EFSI Regulation, may need to be expanded in order to improve the EIB Group's outreach to EU13 countries. In addition, the pressure to reach the target of EUR 315 bn of total investment might encourage the EIB Group to pursue operations in markets that are more adept at using financial instruments and structuring high-risk projects (both in the public and private sector).

(3) The lack of private investment was an important rationale for establishing EFSI, which, as per its Regulation, is expected to maximise private investment where possible. Thus far, approximately 62% of total investment mobilised by EFSI derives from the private sector, which is positive. However, it is important to maintain the ambition of crowding in private investment to address the challenges at the origin of the IPE initiative and contribute to achieving its intended economic impact. Efforts should be made to increase the results in terms of private sector capital mobilised. In addition, as the amount of private finance mobilised is one of EFSI's Key Performance Indicators, good practice would suggest that a specific target is set.

(4) The Scoreboard is used to assess the eligibility and quality of a project. It comprises four Pillars which include a number of relevant indicators. Pillar 1 assesses the eligibility of the project with respect to policy objectives; Pillar 2 the quality and soundness of a project (including technical viability and the economic rate of return, ERR); Pillar 3 the technical and financial contribution of the EIB to the project; and Pillar 4 comprises a number of complementary indicators about the project, and its sector and country context. The evaluation describes how the Scoreboard is used and highlights that it supports the IC in determining the appropriateness of the use of the EU Guarantee for EIB operations. However, as operations arrive as a pipeline rather than as a batch, the Scoreboard is not used as a priority setting tool. In addition, to avoid

confusion, the evaluation calls for the Scoreboard to refer to project selection criteria, rather than the terms "added value" or "value added".

(5) According to the EFSI Regulation, the EU Guarantee shall be granted in support of operations that meet the criterion of additionality, which is defined as the support by EFSI to operations which (i) address market failures or sub-optimal investment situations and (ii) could not have been carried out to same extent or in the same time frame without EFSI. The Regulation also states that EFSI financing provides additionality to a project if it qualifies as a Special Activity (loan grade of D- or below). The evaluation deems that the Regulation could be more explicit on this, as there have been situations in which, in spite of a project's high-risk profile, additionality has been questioned by some stakeholders. It is found that, in practice, the EIB's project teams document and assess additionality for all projects independently of whether they are Special Activities or not. Thus, they go beyond the formal requirements of the Regulation and should continue to do so in order that project documentation is consistent and mitigates reputational risk posed to EFSI.

(6) Reaching the investment target of EUR 315 bn at the end of the investment period depends on the assumptions made on the multiplier effect of EIB and EIF financing. The actual multiplier can only be measured at portfolio-level and at the end of the investment period; however, the EIB Group is required to monitor progress towards achieving the EUR 315 bn target. For this reason, the EIB Group has dedicated considerable resources to developing, together with the EC, a methodology to estimate the multiplier for different types of products. To demonstrate that EFSI support actually induced (or mobilised) the investment of others, the EIB should continue to explore and document with clients how, in their opinion, EFSI financing was responsible for mobilising other investors. However, it must be acknowledged that the multiplier and its corresponding documentation are illustrative and cannot demonstrate causality between EFSI financing and other sources of financing.

(7) EFSI *governance* is closely intertwined with the EIB's governance structure, organisation and project cycle management. The evaluation finds that the governing bodies of EFSI have been set up and are functioning as envisaged in the EFSI Regulation: they are added to the existing EIB Group structures without encroaching upon or interfering with the decision-making process of the EIB or the EIF. Furthermore, they are supporting the swift and efficient implementation of EFSI. Three aspects, however, merit further reflection: (i) the procedures to manage potential conflicts of interest should be extended to the SB, and brought in line with other EFSI governing bodies and the Board of Directors; (ii) the roles and responsibilities of the MD office, the EFSI Secretariat, and EIB Services working on EFSI could be made clearer to avoid potential overlaps; and (iii) lines of communication should be made more explicit, particularly amongst EFSI's different governing bodies, and between EFSI's governing bodies and the EIB.

A transformational change for the EIB Group

In a relatively short period of time, EFSI has triggered significant change within the EIB Group. The consequences of such change may be long-term and include: the significant number of new staff hired; the modification of procedures, processes, internal systems and organisation; the higher risk profile and higher multipliers of newly developed financial products; the need to manage the portfolio of EFSI operations for a period of time extending well beyond EFSI's initial investment period; the requirements in terms of transparency; and the increased awareness of the need to demonstrate the impact, additionality and catalytic effect of operations.

Overall conclusions

The overall conclusions of this evaluation are as follows:

- EFSI was set up in a very short period of time and is now up and running. It is on track in terms of approvals in view of its target of mobilising EUR 315 bn of total investment in the real economy, but is lagging behind in terms of signatures and disbursements.
- To ensure that reaching this target translates into achieving EFSI's

objectives, there are several areas that merit improvement. They include: complementarity with the other two IPE Pillars; the expected share of private versus public investment; governance structure; the concept of additionality; the geographical distribution of EFSI operations; and monitoring the pace of signatures and disbursements.

IV Executive Summary

TABLE OF RECOMMENDATIONS AND MANAGEMENT RESPONSE

The Management Committee welcomes the independent Evaluation of the functioning of the European Fund for Strategic Investments – EFSI (“The Evaluation”) conducted by the Evaluation division.

The European Fund for Strategic Investments (EFSI) is an initiative launched jointly by the EIB Group and the European Commission (EC) to help address investment gaps in the European Union (EU) by mobilising private financing for strategic investments. The core idea is two-fold: first to make a significant contribution to the competitiveness of the European economies and secondly to reestablish confidence among private investors and commercial banks to increase their risk-taking capacities. The EFSI, the first pillar of the European Investment Plan (IPE) launched in November 2014, is implemented by the EIB Group who is fully dedicated to its success, so that the guarantee provided by the European Union to the EIB and the capital contribution coming from the EIB, can support investments, increase SMEs and Mid-Caps access to finance and participate in reinforcing EU growth and to creating sustainable jobs.

The Evaluation covers the period from September 2014 to June 2016, and as foreseen in the EFSI Regulation¹, will be submitted by the Bank to the European Parliament, European Council and European Commission before January 2017.

By assessing the functioning of EFSI, i.e. the resources used including the activities undertaken even before the entry into force of the EFSI Regulation in July 2015, the Evaluation offers an opportunity to identify possible areas of improvement for the future functioning of EFSI, including in relation to the legislative proposal made in September 2016 by the European Commission to extend EFSI beyond its initial three-year period.

While the Evaluation comes at an early stage to provide all information on whether EFSI is achieving its objectives, recommendations will serve as a basis for the Management Committee to re-assess the Bank’s operational strategy and organisational arrangements developed for EFSI, and make necessary adjustments as needed. The Management Committee will particularly focus on additionality, geographic and sectorial balance of EFSI coverage for EIB loans and complementarity with other financial instruments and financial institutions, but project quality remains the primary criterion for project selection. The Management Committee stands also ready to further contribute to the others Pillars of the IPE, crucial for facilitating EFSI’s implementation and reaching the above-mentioned strategic objectives within the limits of the EIB Group’s remit and resources.

The Evaluation is the result of continuous and substantial exchanges between the Evaluation team, the EIB and EIF staff working on EFSI matters, but also members of the EFSI Steering Board and Investment Committee, staff from the EC and counterparts, including representatives from National Promotional Banks and Institutions (NPBs/NPIs). The report has been endorsed by the Management Committee on 6 September 2016 and presented to the EIB Board of Directors at its September meeting, where discussions on the extension of EFSI also take place.

The Evaluation is very timely as it gives useful indications for future developments. The Management Committee expects the results of the EC’s own Evaluation, of an external evaluation also launched by the EC, and of a stakeholders consultation organised by the EFSI Steering Board to complement and fine-tune actions the Management Committee intends to engage in.

¹ “By 5 January 2017, the EIB shall evaluate the functioning of the EFSI. The EIB shall submit its evaluation to the European Parliament, the Council and the Commission.” (Article 18.1). Regulation (EU) 2015/1017 on the EFSI, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 (EU) No 1316/2013, - the EFSI, 25 June 2015.

RECOMMENDATIONS

Building on the evidence collected through this evaluation, the evaluation proposes eight recommendations for enabling the EIB Group, along with the other stakeholders, to better contribute to achieving the objectives of EFSI and, ultimately, the IPE.

In line with the Evaluation division's mandate, the following recommendations are solely addressed to the EIB Group. Nevertheless, the full implementation of most of these recommendations entails the involvement from stakeholders at all levels, including the European Parliament, the Council and the EC.

To the extent that these recommendations are endorsed by the Board of Directors of the EIB, and taking into account the result of other ongoing evaluations and consultations, the Bank is expected to propose concrete actions for implementing these recommendations.

DESIGN AND NEGOTIATION OF PARTNERSHIPS

(1) Ensuring IPE Pillars 2 and 3 reinforce EFSI (§ 1.1, 3.1, 3.6)

The evaluation finds that complementarity between the different IPE pillars is still incipient. Yet increased complementarity would facilitate EFSI's implementation and, therefore, better enable IPE to achieve its objectives. While the EIB Group has a high degree of influence on the European Investment Advisory Hub (EIAH) within Pillar 2, the Group has very limited influence on the rest of Pillar 2 and on Pillar 3. Therefore, The evaluators recommend that the Bank brings this issue to the attention of the EC and Member States and together consider ways in which the other pillars can reinforce EFSI. Otherwise, EFSI may be hindered in achieving its objectives, whether in terms of *inter alia* its volume target, and its indicative sector and geographical concentration limits.

Management Response

AGREE

The EIAH builds on the expertise of the EC and the EIB Group, as well as NPBs/NPIs and Member States' Managing Authorities. As of the beginning of September 2016, the EIAH has handled more than 255 requests originating from all 28 Member States. About two thirds of the requests have come from the private sector. Out of the EFSI projects already approved by the Board of Directors, 26 have benefitted from advisory support during their development. A cooperation platform is being established with interested NPBs: memoranda of understanding have been signed with 18 NPBs, with the objective of sharing knowledge and best practices as well as to provide a local entry point for project promoters seeking EIAH technical assistance. Future developments include the delivery of advisory services in priority areas by NPBs with the appropriate expertise. A strengthened local presence in selected countries where needs are greatest is considered. This would facilitate a wider geographical outreach of advisory services, enhance support to potential EFSI projects, especially by pro-actively attracting new potential clients, and encouraging the combination of EFSI and Structural Funds.

The EC put in place the European Investment Project Portal (EIPP) in 2016 and has received for publication almost 200 investment projects from nearly all EU Member States, including cross-border projects, and across 25 high-growth-potential sectors and industries. While these project proposals are not vetted by the EIPP for eligibility or compliance with the EFSI Regulation, the EIB may assess in 2017 the impact in terms of EFSI operations, as project appraisal and decision processes take time.

The EC and the Member States are the political and business owners of Pillar 3. The EIB is ready to contribute as requested by the EC and the Member States, but would require a clear mandate to clarify its role in this respect. It is important to identify national barriers to investments and priority reforms to remove them in order to facilitate the implementation of Pillar 1. The EIB Group is contributing to the work on Pillar 3 in the ECOFIN and in the preparatory work in the Economic Policy Committee (EPC) and the Economic and Financial Committee (EFC). The EIB Group has already provided the EC and the Member States with topics and concrete examples of regulatory or legislative barriers to investment, leading to sub-optimal investment situations, and possible ways to overcome them based on its market experience across the EU.

(2) Keeping private investment at the core of EFSI (§ 3.5)

The decline in investment in the EU over the period 2007-2013 underpinned the rationale for establishing EFSI. As per its Regulation, EFSI is expected to maximise where possible the mobilisation of private sector capital. Thus far, approximately 62% of total investment mobilised by EFSI derives from the private sector, which is a positive achievement. It is important to maintain the ambition of crowding in private investment to address the challenges at the origin of the IPE initiative and to contribute to achieving its intended economic impact. Therefore, the evaluators recommend that efforts are made to maintain the positive results in terms of private sector mobilisation achieved so far. In addition, as the amount of private finance mobilised is one of EFSI's Key Performance Indicators (KPI), good practice would suggest that a specific target is set.

Management Response

PARTIALLY AGREE

There is a global EFSI target related to investments supported. This shall be achieved through the combination of EIB financing under EFSI with both private and public financing (= EUR 315 bn). At the end of July 2016, there was a total amount of EUR 115.7 bn of investments supported. Total investment and amount of private investment mobilised are two KPIs. A Key Performance Indicators / Key Monitoring Indicators Methodology has been adopted by the EFSI Steering Board and is a public document.

While the crowding in of private capital is one of the objectives of EFSI, it is recognised in the Regulation as the only one qualified by 'where possible' (EFSI eligibility criteria (Article 6) requires EFSI to support projects which maximise where possible the mobilisation of private sector capital). Setting an absolute target would be liable to skew the balance of objectives set in the Regulation and would be challenging in practice, as frequently, for important market failure or sub-optimal investment situations (e.g. energy efficiency sector), the EFSI operations are combined with other instruments (e.g. ESIF, NPBs co-financing) and the variety of situations across EU Member States. The share of private investment mobilised depends significantly on the nature and the structuring of each operation and on the specific market conditions surrounding it. It should therefore not be set as a target per se but shall continue to be measured in a consolidated way for the entire portfolio of EFSI-supported projects.

In addition, the EFSI Regulation also emphasises the role of NPBs/NPIs as possible co-financiers for EFSI operations. In this respect, the EIB continues to intensify its cooperation with the NPBs, including to create and deploy Investment Platforms, which are particularly designed to mobilise private investments.

At the level of EFSI individual operations, the EIB is already monitoring the crowding-in effect and will continue doing so.

IMPLEMENTATION OF PARTNERSHIPS

(3) Ensuring good governance and efficient processes (§ 3.7)

The Evaluation finds that the governing bodies of EFSI have been set up and are functioning as envisaged in the Regulation: they have been added to the existing EIB Group structures without encroaching upon or interfering with the decision-making process of the EIB or the EIF, and they are supporting the swift and efficient implementation of EFSI. These two positive aspects should be preserved; as governance should facilitate the appropriate implementation of EFSI and avoid lengthy procedures. Three aspects, however, should be addressed:

- the procedures to manage potential conflicts of interest should be extended to the Steering Board, as is already the case for other EFSI governing bodies and the Board of Directors;
- the roles and responsibilities of the Managing Director's office, the EFSI Secretariat, and EIB Services working on EFSI could be made more explicit to avoid potential overlaps, thereby increasing efficiency;
- to sustain the swift implementation of EFSI, the flow of communication should be made more explicit, particularly amongst EFSI's different governing bodies, and between EFSI's governing bodies and the EIB.

Management Response

AGREE

The EIB understand that the conflict of interest issue is a concern for the EC, as some Steering Board members nominated by the EC also have voting rights within the EIB and EIF Boards of Directors on EFSI projects or strategic matters related to EFSI implementation (which is not the case for the EIB

representative).

While relying on team spirit and complementarity of skills of people involved, the EIB shall better clarify roles and responsibilities for its internal EFSI structure, to optimise efficiency of workflows and synergies. An enhanced definition of roles and respective activities / interactions shall be incorporated in the relevant procedures to ensure further streamlining and improved communication.

The information flow between EFSI governing bodies has already improved after the starting phase. The EFSI Managing Director is more frequently invited to Steering Board meetings. Regular information sessions are organised for the operational teams as a part of an ongoing awareness building effort aimed at increasing staff and management focus and in order to provide feedback from the Investment Committee meetings.

(4) Providing additionality to all projects supported (§ 3.3)

According to the EFSI Regulation, the EU Guarantee shall be granted in support of operations that meet the criterion of additionality, which is defined as the support by EFSI to operations which (i) address market failures or sub-optimal investment situation and (ii) could not have been carried out to same extent or on the same time frame without EFSI. The Regulation also states that a project shall be considered to provide additionality if it carries a risk corresponding to EIB Special Activities (loan grade of D- or below).

The Evaluation considers that the Regulation could be more explicit on this point as there might be situations in which, despite a high risk profile, additionality has been questioned by some stakeholders. The evaluation has found that, in practice, the EIB project teams document and assess additionality on the basis of the two conditions mentioned above, whether the project is a Special Activity or not. In addition, the Investment Committee and the EIB Board of Directors are placing considerable importance on the analysis of additionality. The evaluators recommend that the EIB maintains this good practice and, furthermore, makes it more systematic (e.g. by developing guidelines for project teams). This will allow higher consistency in the way projects supported by EFSI are documented and will help to avoid reputational risk to EFSI.

Management Response

AGREE

The definition of additionality is part of the EFSI Regulation but communication on this matter could be improved.

Additionality is assessed and documented by the project teams in the documentation submitted to the Investment Committee who has noted that the quality of the documents has been improving considerably after a few months, thanks to the Investment Committee's feedback and improved guidelines.

The role of the Investment Committee is to assess the eligibility and additionality of each EFSI project. The Investment Committee members have been presented with the Investment Guidelines and the Strategic Orientation approved by the Steering Board.

The EIB already engaged with the EC, Member States and the European Parliament to further clarify the additionality definition with a view to reach currently unserved themes, such as cohesion, cross-borders projects, when an opportunity for revision arises.

(5) Ensuring an adequate geographical distribution of the operations (§ 2.2)

The EFSI portfolio after one year of operations is highly concentrated. Under the IIW, 63% of the total amount signed is in the United Kingdom, Italy and Spain and 91% in EU15 countries. Under the SMEW, 54% of the amount signed (excluding multi-country operations) is in Italy, France and Germany and 93% in EU15 countries. It is important to understand why the portfolio is so concentrated in a handful of countries and newer Member States are so far less served by EFSI. This evaluation can only propose hypotheses to be further explored and suggests that the Bank identifies the main causes for the portfolio concentration and addresses them, whenever possible, jointly with the EC.

Management Response

AGREE

While recognising that EFSI is a market driven process, the EIB and EC have recognised this issue and are in the process of understanding the possible reasons for the geographical concentration of the initial portfolio, including by consulting regularly the external stakeholders (e.g. NPBs/NPIs, banking associations, private sector associations etc.). An analysis of recent approval figures (i.e. after the portfolio cut-off date for the evaluation) tend to show an improvement in the situation with EFSI better

serving newer Member States, both in absolute terms and per capita.

Some reasons are known already: smaller Member States have less capacity and financial capability to originate and structure bankable projects. Some Member States have established very early central coordination units for EFSI projects. Not all Member States have NPBs in place, helping to originate projects, or their NPBs are very recent institutions. The EIB will enhance the EIAH's role in facilitating EFSI support across the EU and contributing to balancing geographically project origination. This could be implemented in a decentralised manner through a network of national partners in accordance to already signed Memoranda of Understanding.

While EFSI Regulation calls for broad support of EFSI to the cohesion objective, cohesion was not listed explicitly under Article 9 objectives (Requirements for the use of the EU Guarantee) with resulting uncertainties on origination efforts in some regions. The EIB will engage with stakeholders to further expand the sectorial eligibility in the Regulation with a view to reaching currently unserved themes, such as cohesion, when an opportunity for revision arises.

Possible optimisation measures: further dialogue with external partners, pro-active outreach/ information dissemination of EFSI activities (and combining EFSI with ESIF), higher involvement of local offices, specialised task force groups from EIB services to target specific regions (example of Greek team), closer cooperation with NPBs and external partners who could act as EFSI ambassadors; combination with ESIF fund shall help for cohesion regions.

(6) Monitoring the pace of signatures and disbursements (§ 2.1)

Evidence on the portfolio of operations approved during the first year of implementation shows that EFSI has been expeditious in terms of approvals but slower in terms of signatures and disbursements. The evaluators recommend an increased focus on monitoring signatures and disbursements and understanding their slow pace and acting accordingly. Most of the effects on the real economy will result from money disbursed, not approvals or signatures.

Management Response

PARTIALLY AGREE

The level of approvals – signatures – disbursements is already closely monitored. Documentation submitted to the Investment Committee includes a section detailing the "acceleration impact" of EFSI guarantee on the candidate project. This ensures ex-ante that the approved transaction is technically and financially able to translate rapidly into tangible investments on the ground.

The Evaluation comes at an early stage and analysis on signatures and disbursements might be needed in a few months' time, to respect business deadlines. The contractual agreements and the approval process for EFSI follow the EIB standard loan cycle process, and it should be noted that the changing market conditions and risk appetite have an impact on disbursements, and are beyond the control of the EIB.

The Evaluation has shown that while EFSI proposals require thorough preparation, post-approval is actually implemented (signed) quicker than non-EFSI operations. The nature of the projects under the IIW – typically long-term investment projects with multi-year implementation periods, or the intermediation feature for projects supporting entities with up to 3,000 employees in both the IIW and SMEW, inevitably bring significant lag-times until full deployment of the funds by the beneficiary. As the Bank has been developing new and sometimes complex products, it is inevitable that, in the first phase, the deployment of these new products takes time. Once in the rolling out phase, this timeframe is expected to be naturally reduced.

(7) Monitoring EFSI's multiplier while exploring its catalytic effect (§ 3.4)

One of EFSI's KPIs relates to mobilising EUR 315 bn of total investment by 4 July 2018. The extent to which the EIB Group achieves this volume target depends on the multiplier effect achieved by EIB Group financing supported by EFSI. The actual multiplier can only be measured at portfolio-level at the end of the investment period. However, the EIB Group is required to monitor progress towards achieving the EUR 315 bn target. For this reason, the Steering Board has adopted a methodology to estimate the multipliers for different types of financial products.

The multiplier is an important instrument to monitor progress on a KPI but it is not an end in itself. An excessive focus on the multiplier and the volumes reached could potentially detract from what is as important: the quality of the projects financed. The evaluators recommend providing operational staff with clear strategic orientations in this respect. In addition, to better assess EFSI's catalytic effect, the EIB should continue to explore with the clients on EFSI operations what is, in their opinion the catalytic effect

of EIB financing under EFSI and report it in the document provided to the Investment Committee.

Management Response

AGREE

EFSI is market driven. The size of EIB financing under EFSI to support a particular project depends on several factors linked to the characteristics of the project but also to the interest of other co-investors to co-finance the project. EIB ticket size is not driven by multiplier considerations but instead by market demand. There is often a trade-off between the multiplier achieved and the role of EFSI in supporting risky operations. A low multiplier cannot be an exclusion criterion for EFSI. However, on average, EFSI operations shall ultimately have a multiplier factor of x15, in order to reach the EUR 315 bn target. These guidelines are well known by the EIB Services.

EFSI eligibility criteria (Article 6) requires EFSI to support projects which maximise where possible the mobilisation of private sector capital. Documentation submitted to the Investment Committee includes a section detailing the crowding-in effect and catalytic aspect of each EFSI candidate transaction.

The EIB will continue to provide the Investment Committee with detailed information obtained from the promoters on how EIB financing has had a catalytic effect, thereby helping a higher multiplier.

ORGANISATION

(8) Monitoring the impact of EFSI on the EIB Group (§4)

It has been observed that EFSI is triggering significant change within the EIB Group. Changes include: the significant number of new staff hired; the modification of procedures, processes, internal systems and organisation; the higher risk profile and higher multipliers of newly developed financial products; the need to manage the portfolio of EFSI operations for a period of time extending well beyond EFSI's initial investment period; the requirements in terms of transparency; and the increased awareness of the need to demonstrate the impact, additionality and catalytic effect of operations. The evaluators invite the EIB Group to reflect on the long term consequences of those changes, and mitigate their corresponding risks accordingly.

Management Response

AGREE

The quick launch of EFSI demonstrated the flexibility of the organisation and of its processes as the results are already there.

An analysis of EFSI's long-term impact on the EIB Group, in terms of its organisation, staff, processes and procedures, could be done. Such an analysis would be of added value at the end of the EFSI implementation period to be fully comprehensive. It should take into account post-signature activities such as regular monitoring of contracts and cases of restructuring, and include the phasing out of the EFSI implementation. This analysis might demonstrate the impact and/or benefits for the entire Bank's activities and functioning, the EIB Group corporate culture and synergies between the EIB and the EIF.

The EIB Group is also subject to enhanced external scrutiny and visibility, which contributes to further adapting its transparency practices while following confidentiality requirements for business reasons. Many documents related to EFSI governance, strategy and activities are made publicly available through the EIB website.

X Recommendations

1. INTRODUCTION

This evaluation assesses the functioning of the European Fund for Strategic Investments (EFSI), which is part of the Investment Plan for Europe (IPE). As per the EFSI Regulation²:

"By 5 January 2017, the EIB shall evaluate the functioning of the EFSI. The EIB shall submit its evaluation to the European Parliament, the Council and the Commission." (Article 18.1)

The evaluation was carried out by the EIB's Evaluation Division (EV). The assignment was part of EV's Work Programme for 2016 as approved by the EIB's Board of Directors.

1.1 The Investment Plan for Europe

The IPE³ was adopted in November 2014 as the first major initiative of the Juncker Commission. The IPE highlighted how investment in the European Union (EU) in 2013 was 15% below the highs experienced in 2007. Should this investment gap persist, it was argued that EU's competitiveness, growth potential, and ability to sustain and create jobs would be hindered in the long-term. To address this problem, the IPE has the following policy objectives⁴:

- Reverse downward investment trends and help boost job creation and economic recovery, without weighing on national public finances or creating new debt;
- Take a decisive step towards meeting the long-term needs of the EU economy and increase its competitiveness; and
- Strengthen Europe's human capital, productive capacity, knowledge and physical infrastructure, with a special focus on the interconnections vital to the Single Market.

In order to achieve these objectives, the IPE draws on its three Pillars⁵, which should mutually reinforce one another.

The *first* Pillar entails the mobilisation of at least EUR 315 bn of investment by July 2018 through the establishment and implementation of EFSI. EFSI, the subject of this evaluation, consists of a guarantee provided by the EU to the EIB and a capital contribution from the EIB. EFSI is implemented by the EIB Group.

The *second* Pillar aims to improve the way in which private investors and public authorities access information for the identification and preparation of investment projects. To do so, it draws on, *inter alia*, the European Investment Project Portal (EIPP), which aims to provide information about EU investment projects via a publicly accessible database, and the European Investment Advisory Hub (EIAH), which aims to provide technical assistance and advisory support for the identification, preparation and development of investment projects. The EIPP is hosted by the European Commission (EC), while the EIAH is hosted by the EIB.

The *third* Pillar of the IPE consists of providing greater regulatory predictability, removing barriers to investment across Europe and further reinforcing the Single Market by creating optimal framework conditions for investment in Europe. This would enhance the impact of the IPE by providing a better investment environment. This Pillar also involves progress towards Capital Markets Union.

² Regulation (EU) 2015/1017 on the EFSI, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 (EU) No 1316/2013, - the EFSI, 25 June 2015.

³ Also called the "Juncker Plan" in reference to Jean-Claude Juncker, President of the European Commission since 1 November 2014.

⁴ COM (2014) 903 final, Communication from the EC on An Investment Plan for Europe, 26 November 2014.

⁵ The term "Pillar" is the official term used to designate the three components of the IPE, although "strand" is also sometimes used. Please note that the term "Pillar" is also used for the 3 Pillar Assessment (3PA) and the 4 Pillars of the EFSI Scoreboard.

1.2 The European Fund for Strategic Investments

1.2.1 Purpose

EFSI has a twofold objective as it seeks to support investments and increase access to finance for SMEs (up to 250 employees) and mid-cap companies (up to 3,000 employees). SMEs and mid-caps are considered to be the drivers of the EU's future competitiveness. However, they mostly rely on bank financing and have been particularly vulnerable to post crisis weaknesses in the EU's banking sector.

In spite of its name, EFSI is not a fund, but comprises a guarantee provided to the EIB Group from the EU budget and a capital contribution provided by the EIB. This financial structure enhances the risk-bearing capacity of the EIB Group, allowing it to finance more high-risk projects or riskier tranches of projects without deteriorating its asset quality, and therefore without threatening its AAA credit rating – a fundamental element underpinning the sustainability of the Group's business model. This, in turn, would stimulate other investment, namely in the safer tranches of projects by reducing risk through credit enhancement⁶. It is also essential that EFSI provides additionality to operations that it supports. This will be further discussed in section 3.

EFSI's two objectives are reflected in EFSI's two "windows": the Infrastructure and Innovation Window (IIW) to fulfil the first objective, and the SME Window (SMEW) for the second. The IIW is implemented by the EIB, the SMEW by the European Investment Fund (EIF).

1.2.2 Funding and volume targets

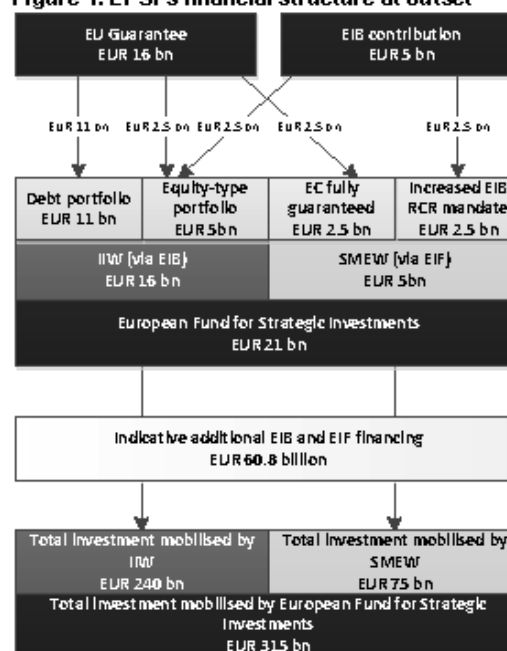
Figure 1 illustrates EFSI's financial structure at its *outset*. The EU contributes to EFSI through an EU Guarantee of maximum EUR 16 bn to be used as follows:

- Up to EUR 11 bn for the IIW debt portfolio;
- Up to EUR 2.5 bn for the IIW equity-type portfolio; and
- Up to EUR 2.5 bn for SMEW products.

The EU Guarantee is complemented by an EIB contribution of EUR 5 bn provided at the Bank's own risk, split as follows:

- EUR 2.5 bn to increase the Risk Capital Resources (RCR) mandate provided to the EIF and to be used under the SMEW; and
- Up to EUR 2.5 bn of *pari-passu* financing for the IIW equity-type portfolio, also benefiting from the EU Guarantee.

Figure 1. EFSI's financial structure at outset



Source: EV

The EU Guarantee of EUR 16 bn combined with the Bank's EUR 5 bn contribution (a total of EUR 21 bn) is expected to enable EFSI to indicatively generate EUR 60.8 bn of additional financing provided by the EIB Group (an internal multiplier of approximately x3). This, in turn, is expected to generate EUR 315 bn in total investment in the EU within three years (an external multiplier of approximately x5).

⁶ EC (2015) The Investment Plan for Europe: Questions and Answers, Fact Sheet, Brussels, 20 July 2015.

The data collection and analysis undertaken for this evaluation have focused on the abovementioned funding and volume targets. However, it must be noted that Article 11(3) of the EFSI Regulation foresees up to EUR 0.5 bn of coverage under the EU Guarantee being transferred from the IIW to the SMEW. On this basis, a transfer from the IIW's debt portfolio to the SMEW's EC fully guaranteed portfolio was approved by the Steering Board (SB) during its meeting of 20 July 2016, and was subsequently translated into the revised EFSI Agreement signed by the EC and the EIB in July 2016. This transfer occurred late in the evaluation process and so has had little bearing on the findings, conclusions and recommendations of this evaluation.

1.3 This evaluation

1.3.1 Objectives

The EFSI Regulation states that the EIB shall evaluate the functioning of EFSI while the EC shall evaluate the use of the EU Guarantee and the functioning of the Guarantee Fund. Both evaluations should be submitted to the European Parliament, the Council and the Commission by 5 January 2017. This is the EIB's evaluation, which has been produced by the EIB Group's Evaluation Division. The objectives of this evaluation are to:

- Assess the functioning of EFSI; and
- Identify aspects that could improve the future functioning of EFSI.

For the purpose of this evaluation, "functioning" has been defined as the resources used and activities undertaken to achieve EFSI's objectives. The evaluation assesses whether the functioning of EFSI is conducive to reaching those objectives.

Being a mid-term evaluation, the emphasis is on assessing the extent to which EFSI is designed and operating in a way conducive to achieving its expected effects. Consequently, the evaluation focuses primarily on process and implementation, and will only consider outputs and outcomes to the extent that they are realised thus far. The evaluation does not include an assessment of outcomes and impact of EFSI as such.

1.3.2 Scope

The scope of the evaluation is EFSI, including its underlying portfolio of operations, its governance and organisational structures, and relevant project procedures and guidelines. This takes into account EFSI being inextricably linked with the EIB Group's governance structure, and processes and procedures.

The evaluation covers the period from September 2014 to June 2016. This enables the evaluation to take into account the launch of the IPE, the design and development of EFSI by the EIB and the EC, and the period following the entry into force of the EFSI Regulation on 4 July 2015. The evaluation does not evaluate the negotiations preceding the EFSI Regulation.

1.3.3 Approach

The evaluation is carried out with reference to EFSI's stated objectives as per the official documentation and, in that sense, is objectives-based. Research was guided by eight evaluation questions (based on EFSI's reconstructed intervention logic), standard evaluation criteria, process evaluation methodologies as well as the evaluation requirements laid down in recital (47) and Article 18.1 of the EFSI Regulation. The evaluation questions are listed in Table 1.

The evaluation is based on a literature review, a portfolio analysis and some 60 interviews with around 75 relevant stakeholders, including EIB and EIF staff, EC staff, EFSI's SB members, EFSI's Managing Director (MD) office, EFSI's Investment Committee (IC) members, and EIB

and EIF counterparts, including representatives from National Promotional Banks and Institutions (NPBs/NPIs).

Table 1. Evaluation questions

EQ#	Evaluation question	Evaluation criterion
1	How was EFSI designed to respond to identified needs?	Relevance
2	How are eligible counterparts and final beneficiaries identified and reached under EFSI?	Relevance - Effectiveness
3	To what extent is EFSI "on track"?	Effectiveness
4	To what extent are EFSI's resources adequate to achieve EFSI's expected effects?	Efficiency
5	To what extent are the governance structures of EFSI, the EIB and the EIF conducive to delivering EFSI's expected effects?	Efficiency-Effectiveness
6	To what extent is EFSI complementary to, and coherent and coordinated with, related interventions?	Coherence-Coordination-Complementarity
7	To what extent is EFSI set up to provide <i>added value</i> ?	Added value
8	To what extent does EFSI provide <i>additionality</i> ?	Additionality

1.4 Structure of the report

The remainder of the report is organised according to the main findings of this evaluation, and is structured as follows:

- Section 2 describes where EFSI stands mid-2016.
- Section 3 assesses how EFSI's main principles function in practice.
- Section 4 assesses EFSI's impact on the EIB Group.
- Section 5 provides conclusions.

2. WHERE EFSI STANDS MID-2016

This section assesses what was achieved so far under EFSI in terms of the projects financed, overall, and in terms of geographies and sectors. It also describes the new products developed under EFSI, many of which will be rolled out in the second half of the investment period, thereby complementing existing products.

2.1 Portfolio analysis

As of 30 June 2016⁷, 262 operations had been approved under EFSI (see Table 2). These operations accounted for a financing amount of EUR 17.45 bn and, based on the EFSI's multiplier calculation methodology, represent a total investment mobilised of EUR 104.75 bn. Hence, a third of the way into its investment period (12 of 36 months), EFSI's aggregated portfolio of approved operations had achieved approximately a third of its EUR 315 bn target. Of the 262 approved operations, 202 have been signed⁸ for an EFSI financing amount of EUR 10.45 bn, representing EUR 66.14 bn of investment mobilised; i.e. 21% of the investment target.

Although the calculations for many of EFSI's Key Performance Indicators (KPIs) and Key Monitoring Indicators (KMIs) are based on signed operations, it is important to note that financing under EFSI will effectively reach the economy when it is disbursed. As of 30 June 2016, EUR 1.81 bn had been disbursed under the IIW (i.e. 38% of the signed EFSI financing amount under the IIW). No comparable data is available for the SMEW given the specificity of its instruments.

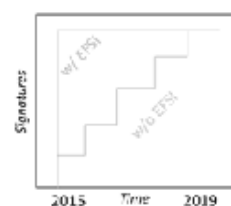
Table 2. EFSI portfolio overview as of 30 June 2016

	Aggregated		IIW		SMEW	
	Approved	Of which signed	Approved	Of which signed	Approved	Of which signed
No. of operations	262	202	76	39	186	163
EFSI financing amount (EUR bn)	17.45	10.45	10.80	4.72	6.65	5.73
Total investment mobilised (EUR bn)	104.75	66.14	57.07	22.39	47.67	43.75
Target total investment mobilised (EUR bn)	315.00	315.00	240.00	240.00	75.00	75.00
% to target	33%	21%	24%	9%	64%	58%

The significant difference between the IIW and the SMEW as regards their distance to target (see Table 2) is largely explained by the different characteristics of the two windows, i.e. the way in which they were set up and their multipliers.

First, the SMEW's fast start is explained by the fact that the EIF agreed with the EC and the EIB to use EFSI to accelerate the roll-out of existing EC or EIB mandates. The EC mandates⁹ were constrained by their annual budgets, but

Figure 2. SMEW "frontloading"



⁷ Consolidated figures are only produced twice a year by the EIB in an operational report submitted to the EC. The latest period end date is 30 June 2016, to be reported on by the end of September 2016. Most figures in this evaluation are based on the figures of the draft operational report for this period. Therefore, figures may differ from those in the final version of the operational report.

⁸ Approvals refer to operations which have received approval from the EIB Board of Directors to receive finance; signatures refer to operations for which one or more finance contracts have been signed with a counterpart; disbursements refer to amounts actually paid out to the counterpart. The "pipeline" (see below) refers to operations that are identified but not approved.

⁹ InnovFin SMEG (SME Guarantee Facility) and COSME LGF (Programme for the Competitiveness of SMEs Loan Guarantee Facility).

EFSI enabled them to be "frontloaded" so that they could enter more guarantee exposures than otherwise would have been the case within the same timeframe (see Figure 2). Similarly, EFSI enabled the EIF to increase the investment limits under the EIB's RCR mandate.

In contrast, in implementing the IIW, the EIB had to develop several new products and adapt internal procedures and systems, and needed time for these changes to become operational. Hence, the number and volume of operations under the IIW, especially with new products (subordinated debt, equity, etc.), are expected to increase in the second half of the EFSI period.

Second, the EIF's debt-type operations typically generate higher multipliers than those of the EIB. In the case of the latter, the majority of signed operations in the IIW's portfolio as of 30 June 2016 were "warehoused" projects¹⁰, and are predominantly investment loans with a multiplier that is expected to be lower than those of operations benefiting from new EIB products. Thus, with the development and roll-out of new EIB products, the IIW will be better equipped to achieve its investment target.

2.2 Geographical distribution

Three Member States (UK, Italy and Spain) account for approximately 63% of total EFSI financing within the IIW portfolio, exceeding the geographical concentration limit of 45% set within EFSI's Strategic Orientation¹¹.

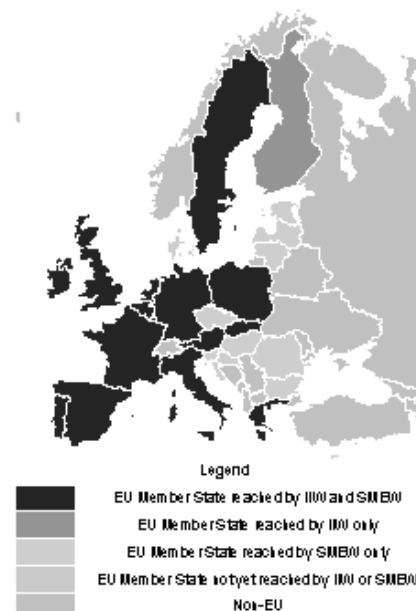
The SMEW has no concentration limits, but EFSI's Strategic Orientation calls for the SMEW to reach all EU Member States and achieve a satisfactory geographical diversification among them, without precisely defining this criterion. Nevertheless, when excluding multi-country operations, three Member States (Italy, France and Germany) account for 54% of total EFSI financing within the SMEW portfolio.

EFSI's portfolio of signed operations had, for the period ending 30 June 2016, reached 26 EU Member States (see Figure 3):

- 15 Member States had operations under both the IIW and the SMEW: Austria, Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and the United Kingdom;
- 1 Member State had operations only under the IIW: Finland.
- 10 Member States (predominantly found in Central and Eastern Europe) had operations only under the SMEW: Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Romania and Slovenia;
- 2 Member States had no signed operations under either window: Cyprus and Malta.

As recital 13 of the EFSI Regulation states that "EFSI should seek to contribute to strengthening the Union's... economic, social and territorial cohesion", it is concerning that EFSI's aggregated portfolio (i.e. the IIW and SMEW portfolios combined), when excluding multi-country operations,

Figure 3. Geographical coverage of signed operations



¹⁰ Prior to the finalisation of the legal basis for EFSI and thus before the EU budget contribution was formally approved and the EFSI agreement signed in mid-2015, the EIB was requested to use existing capital to "warehouse" operations which ultimately could qualify for the EU Guarantee.

¹¹ http://www.eib.org/attachments/strategies/efsi_steering_board_efsi_strategic_orientation_en.pdf

is highly concentrated (92%) in the EU15, and under-serves (8%) the EU13. This is particularly problematic as most of the less-developed regions¹² in Europe are found in the EU13's Central and Eastern European countries.

This evaluation can only propose hypotheses for the causes of the geographical concentration of EFSI operations at this stage. For instance, EFSI's eligible sectors, as detailed in Article 9(2) of the EFSI Regulation, may need to be expanded in order to improve the EIB Group's outreach to EU13 countries. In addition, the pressure to reach the target of mobilising EUR 315 bn of total investment might encourage the EIB Group to pursue operations in markets that are more adept at using financial instruments and structuring high-risk projects (both in the public and private sector).

2.3 Sector distribution

As of 30 June 2016, operations signed under the IIW spanned seven EFSI sectors. Of these, energy was prevalent, accounting for 46% of total EFSI financing under the IIW; thereby exceeding the indicative 30% sector concentration limit for sectors as laid down in EFSI's Strategic Orientation.

The SMEW's signed operations, as of 30 June 2016, span four EFSI sectors. Of these, RDI was the preeminent sector, accounting for 69% of total EFSI financing under the SMEW. Unlike the IIW, the SMEW has no limits for sector concentration. This is justified by the fact that the SMEW solely engages in intermediated operations and, therefore, the EIF cannot exert the same degree of control over sector distribution as the EIB for the IIW.

2.4 New products

Given the political will to swiftly launch EFSI, the EFSI Regulation called for the EIB Group to use its existing structures and products to start delivering on EFSI from the outset. Yet in order to deliver on EFSI's investment target, ensure the provision of additionality, and support a wide range of products adapted to market needs, the EIB Group needed to identify new clients, and develop new products to offer alongside its existing products. The development of EIB Group's new products is supported by the supply of additional risk-bearing capacity provided by EFSI.

By plotting new and existing products and markets against each other, the Ansoff matrix (see Figure 4) provides a framework in which this evaluation analyses the different market development strategies that the EIB Group is pursuing.

Figure 4. Ansoff matrix



These strategies and their corresponding products are summarised in Figure 5, which suggests that the EIF could implement EFSI from the outset with existing products under existing mandates (market penetration), whereas the EIB drew on EFSI support to develop new clients, new markets, or both simultaneously. The following two sections describe in greater detail the products that have been developed to this end under the SMEW and the IIW.

¹² EC Implementing Decision (2014/99/EU) of 18 February 2014 setting out the list of regions eligible for funding from the European Regional Development Fund (ERDF) and the European Social Fund (ESF) and of Member States eligible for funding from the Cohesion Fund (CF) for the period 2014-2020.

Figure 5. Overall EIB Group strategy to respond to EFSI

	Category	Definition	EIB	EIF
Increase in riskiness of strategy	Diversification	New clients	NPBs, Late-stage mid-caps	Riskier counterparts (micro/social enterprises & riskier loans to innovative SMEs & small midcaps)
		New products	Risk Sharing, Equity	Uncapped guarantees
	Product development	Existing clients	Traditional counterparts	Traditional counterparts
		New products	Equity, Hybrid Debt, Mezzanine ABS	SMEW Equity (New) Products (venture debt, rescue/turnaround, recapitalization funds)
	Market development	New clients	Riskier counterparts	NPIs (co-investment through Investment Platforms)
		Existing products	Traditional lending, ABS Senior	SMEW Equity (Traditional) Products (VC/PE Funds)
	Market penetration	Existing clients	-	Frontloading to traditional counterparts
		Existing products	-	COSME LGF, InnovFin SMEG, RCR

Source: EV after Ansoff

2.4.1 "Frontloading" and the development of new products under SMEW

EFSI's SB and MD, following consultation with the IC, approve EIF products as eligible for the use of the EU Guarantee under the SMEW. However, the approval of EFSI's governing bodies is not sought for individual transactions under the SMEW, and so standard EIF procedures apply.

As previously mentioned, it was agreed that the EIF would use the SMEW to accelerate the implementation of its existing InnovFin, COSME and RCR mandates, which were deemed appropriate for EFSI purposes. In doing so, the EIF used EFSI support to frontload transactions under existing mandates that fulfilled EFSI's eligibility criteria. The EIF therefore pursued a market penetration strategy, as it was reaching out to existing clients with existing products, but to a greater extent than would have been possible in the absence of EFSI support within the same timeframe.

In addition, the EIF agreed with the EC and the EIB to proceed with the design and roll-out of new products in the second half of EFSI's initial investment period. These products were developed *inter alia* with the EC, NPBs and NPIs. At the time of writing of this report, the EIF is beginning to launch the first of these new products. It is therefore too early to assess them.

Box 1. SMEW new products

- The SMEW Equity Product aims to crowd in the private sector and complement the current activities of NPBs and NPIs. It consists of offering established EIF products (e.g. equity funds); emerging products (e.g. technology transfer) and new products (e.g. venture debt).
- Uncapped guarantees for riskier (subordinated) loans to innovative SMEs and small mid-caps.
- Uncapped guarantees for the EU Programme for Employment and Social Innovation ("EaSI"), which aim to foster access to microfinance for vulnerable groups, micro-enterprises and social enterprises, and consist of a risk sharing mechanism between the financial intermediaries (selected by the EIF, the entity to which the EC entrusted the management of this financial instrument) and the EC.

2.4.2 The development of new products under the IIW

During EFSI's investment period, the EIB's lending targets and funding levels are expected to remain in line with the historical highs achieved following the EIB's capital increase¹³. However, the level of Special Activities (operations with a higher risk profile) in the EIB portfolio is expected to increase from around EUR 4 bn to EUR 20 bn p.a.; thereby reaching a share of about one-third of the EIB's new lending within the EU.

This significant increase in Special Activities, combined with EFSI's target of EUR 315 bn of total investment mobilised, encouraged the Bank to expand its client and product base. The Bank's ability to do so is supported by the increased risk-bearing capacity provided by EFSI.

From mid-2015, the EIB started developing an operational strategy for EFSI based on desk research, feedback from clients and internal discussions. It resulted in: a market analysis; a list of potential new products; a list of major internal and external challenges to deliver EFSI (notably relating to the increase in Special Activities); individual country factsheets; industry sector reports; and an analysis of the current situation (pre-EFSI lending volumes per country).

On the basis of the identified investment gaps, a strategy was designed in terms of types of products (existing and new) to be offered. In addition, individual targets for each product and region were established, taking into consideration the EIB's current market share and room for further growth. This went hand in hand with the identification of human resources to be allocated and a reflection on necessary organisational changes (see section 4).

More specifically, the EIB's operational strategy for EFSI states that new, scalable products are needed, and Special Activities need to increase significantly, particularly through the use of equity-type products, risk sharing with financial intermediaries, and cooperation with NPBs/NPIs (see Figure 6). The offering of some of these new products by the EIB is subject to the approval of its governing bodies.

Figure 6. IIW – Risk profile of new and old products

Risk	Product
HIGH ↑ ↓ LOW	Direct Equity
	Quasi-Equity
	Equity fund
	ABS Mezzanine
	Layered Funds Mezzanine
	Linked Risk Sharing with guarantee rate >50%
	De-Linked Risk Sharing with guarantee rate >50%
	Linked Risk Sharing with guarantee rate ≤50%
	De-Linked Risk Sharing with guarantee rate ≤50%
	Co-finance @ Project Mezzanine
	ABS Senior
	Layered funds Senior
	MBILs (e.g. loans for SMEs, mid-caps, PSEs)
	Co-finance @ Project Senior
Investment platforms	
	New EIB product (launched during EFSI)
	Classic EIB product enhanced by EFSI
	Classic EIB product

Equity-type products, in particular, are expected to make a relatively high contribution to the EFSI target of total investment mobilised. This is because equity-type products would account for less than 10% of signed volumes under EFSI (EUR 5 bn) but, due to their high expected external multiplier, are projected to contribute approximately 30% of the EFSI target under the IIW (EUR 75 bn out of EUR 240 bn) (see section 3.4).

¹³ Member States approved a EUR 10 bn capital increase for the EIB in early-2013. The increase in lending volumes related to the capital increase concluded in 2015. As from 2016, lending volumes were expected to decrease to pre-2013 levels. However, the launch of EFSI required the EIB to maintain 2015 levels, but with a higher share of Special Activities. See also section 3.3 which presents "portfolio additionalty".

Box 2. Development of a network of new counterparts

In view of EFSI's objectives, it was expected that the EIB Group would serve, at least partly, new counterparts. For the period ending 30 June 2016, new counterparts accounted for 85% of the signed operations under the IIW, and approximately 38% under the SMEW. The figure for the IIW is positive, and the lower figure for the SMEW may be explained by the fact that COSME LGF, InnovFin SMEG and the RCR mandate, either succeed or are a continuation of past mandates, and so are more likely to draw on an established pool of counterparts.

2.4.3 Use of new products

With regard to the IIW, of its 39 signed operations for the period ending 30 June 2016, nine draw on relatively new products: eight operations are classified as equity/quasi-equity (of which one has a risk sharing nature) and one is a project finance guarantee.

There are also 37 operations that have been approved but not yet signed under the IIW for the period ending 30 June 2016, among which many draw on relatively new products, including: equity/quasi-equity products (some with a risk sharing mechanism); classified guarantees (some with a risk sharing mechanism); and the combination of a loan and a guarantee within the same operation. Similar products are expected to serve operations existing within the IIW pipeline of June 2016, thereby demonstrating demand for the newly developed products (mainly risk sharing and equity).

With regard to the SMEW, for the period ending 30 June 2016, its 163 signed operations draw on products offered under mandates (InnovFin SMEG, COSME LGF and the RCR mandate) that existed prior to EFSI.

2.5 Conclusion

For the period ending 30 June 2016, i.e. one-third of the way into its investment period, EFSI *approvals* stood at approximately one-third of the target of mobilising EUR 315 bn of total investment. In terms of *signatures*, progress made accounted for 21% of the target of total investment mobilised. Therefore EFSI is on track in terms of approved operations, but is lagging behind in terms of signatures, let alone disbursements.

The two windows, the SMEW and the IIW, progressed at different speeds. This is mainly explained by the characteristics of the two windows and the definition of their multipliers. For instance, in implementing the SMEW, the EIF accelerated the roll-out of existing mandates and only later introduced new products. In contrast, in implementing the IIW, the EIB needed time to develop a new range of products, which are characterised by having both a higher risk profile and higher (external) multipliers. These new products are expected to complement existing products and be rolled out after EFSI's first year of implementation.

In terms of geographical and sector concentration, EFSI's portfolio exceeds indicative orientations. It is expected that efforts are devoted to correct this in view of the limits set in EFSI's Strategic Orientation and the importance placed on cohesion within the EFSI Regulation.

Finally, following its ramp-up phase, EFSI is expected to reach cruising speed. While this will depend on several factors, comfort is provided by the launch of new products under the IIW and the SMEW, and the rate at which prospective IIW operations are submitted to the IC and the EIB Board.

3. KEY EFSI PRINCIPLES IN PRACTICE

3.1 EFSI preparation

An important justification for EFSI was the existence of an investment gap in Europe. As mentioned in IPE documentation, by 2013, investment in the EU had fallen nearly 15% (EUR 442 bn) as compared to the pre-crisis year 2007. However, some studies question the existence or extent of the investment gap¹⁴.

Two main arguments are put forward. First, investment in 2007 was a peak year and this level may have reflected a credit boom in certain sectors or countries, and was therefore not sustainable. Second, investment levels remain low in Europe, even with increasing liquidity in recent periods. This may point at other factors, including declining demand, structural rigidities or uncertainties, which deter investment. Therefore, the IPE is important as a comprehensive plan including three different Pillars.

Further clarity on the above could have been provided by an ex-ante evaluation as required by the Financial Regulation that regulates the use of the general budget of the Union (see Box 3)¹⁵. However, as a response to the fallout from the global financial crisis, the speed of EFSI's implementation was deemed to be key. In addition, complementary ex-ante evaluations had already been undertaken for products deployed under the SMEW, e.g. those relating to COSME and InnovFin¹⁶.

Therefore, it was decided that EFSI would not be subject to the general Financial Regulation but would instead have its own dedicated regulation which did not require an ex-ante evaluation. Such an evaluation could have explored the causes of the investment gap, as well as identify implementation modalities and potential beneficiaries in greater detail, easing the design and implementation of EFSI. In addition, the fact that EFSI was considered an exception to the EU Budget Financial Regulation was questioned by the European Court of Auditors¹⁷.

Box 3. EU Budget Financial Regulation

Article 30

Principles of economy, efficiency and effectiveness

4. In order to improve decision-making, institutions shall undertake both ex-ante and ex-post evaluations in line with guidance provided by the Commission. Such evaluations shall be applied to all programmes and activities which entail significant spending and evaluation results shall be disseminated to the European Parliament, the Council and spending administrative authorities.

Article 31

Compulsory financial statement

1. Any proposal or initiative submitted to the legislative authority by the Commission (...), which may have an impact on the budget, (...) shall be accompanied by a financial statement and by an ex-ante evaluation as provided for in Article 30(4).

¹⁴ E.g. Dauerstadt, M. (2015) How to close the European investment gap? Friedrich Ebert Stiftung, EU Office Brussels; Myant, M. (2015) The European Commission's investment plan: a critical appraisal and some alternatives, Social Policy in the European Union: state of play 2015, pp.127-152; Gros, D. (2014) Investment as the key to recovery in the euro area? CEPS Policy Brief, No.326, 18 November 2014; Myant, M. (2015) The European Commission's investment plan: a critical appraisal and some alternatives, Social Policy in the European Union: state of play 2015, pp.127-152.

¹⁵ Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union.

¹⁶ E.g. EC Staff Working Paper: Impact Assessment accompanying the Communication from the EC on Horizon 2020 – The Framework Programme for Research and Innovation, SEC (2011) 1427 final; EC Staff Working Document: Ex-ante assessment of the EU SME Initiative, SWD (2013) 517 final.

¹⁷ Opinion 4/2015 concerning the proposal for a Regulation of the European Parliament and of the Council on the European Fund for Strategic Investments and amending Regulations (EU) No 1291,12013 and (EU) No 1316/2013 (p.13-14).

http://www.eca.europa.eu/Lists/ECADocuments/OP15_04/OP15_04_EN.pdf.

The closest EFSI's design came to an ex-ante evaluation was the report issued in December 2014 by the Special Task Force on investment in the EU. The Task Force - comprising representatives of Member States, the EC and the EIB – aimed to:

- Compile a list of potential projects that could be undertaken in the short run;
- Analyse barriers and bottlenecks to investment in the EU; and
- Devise an action plan for creating an enabling environment and promoting a credible and transparent project pipeline.

The Task Force identified more than 2,000 projects with a total investment cost of EUR 1.3 trillion, of which EUR 500 bn could be realised within the period 2015-17. It also identified several crosscutting and specific barriers to investment relating to SMEs and mid-caps, as well as sector-specific challenges. The Task Force was clear that the list of projects did not provide an exhaustive inventory of possible investment projects and should only be considered illustrative. The list has thus far played a minimal role in the development of a project pipeline for EFSI; however, interviews suggest that it may have influenced decision-makers in demonstrating the potential demand for EFSI.

In sum, EFSI was swiftly designed to answer an urgent political call for an investment plan in Europe. This urgency came at the expense of rigorous design and good practice in terms of ex-ante evaluations as defined by the EU Budget Financial Regulation.

The following paragraphs assess the main principles underpinning EFSI's design and how they function after one year of EFSI implementation.

3.2 Scoreboard, eligibility and added value

3.2.1 The Scoreboard under the IIW

An important purpose of EFSI is to address the difficulties in financing investments with high added value which contribute to achieving Union policy objectives¹⁸. The Investment Guidelines found in Annex II of the EFSI Regulation define "added value" as: "Projects benefitting from the EU Guarantee shall respect the eligibility criteria and general objectives set out in EFSI Regulation's Article 6 and Article 9(2) respectively"¹⁹.

Article 6 and Article 9(2) were made operational within the EFSI Scoreboard, which was established by the EC in dialogue with the EIB. As per recital 3 of its Delegated Regulation²⁰, the "Scoreboard of indicators should be used to ensure that the EU Guarantee is directed towards projects with higher added value".

The Scoreboard is aligned with the EIB's 3 Pillar Assessment (3PA), which is the tool used by the EIB to assess the eligibility and quality of projects in the EU as well as the EIB's contribution to the projects. Both tools consist of Pillars, which comprise several indicators reflecting relatively heterogeneous elements (see Figure 7). These Pillars are assessed individually and are not aggregated into a single rating. The first three Pillars of both tools are identical: Pillar 1 assesses the eligibility of the project with respect to policy objectives; Pillar 2, the quality and soundness of a project (including technical viability and the economic rate of return, ERR); and Pillar 3, the technical and financial contribution of the EIB to the project. Pillar 4 comprises a number of complementary indicators on the project (including expected outcomes), its sector and its country context. The indicators relating to the latter are specific to EFSI.

¹⁸ EFSI Regulation recital 13.

¹⁹ Annex II, EFSI Investment Guidelines, section 4.

²⁰ Commission Delegated Regulation (EU) 2015/1558 of 22 July 2015 supplementing Regulation (EU) 2015/1017 of the European Parliament and of the Council by the establishment of a Scoreboard of indicators for the application of the EU Guarantee.

Figure 7. Overview of the Scoreboard of indicators

		Scoreboard of indicators			
		Pillar 1	Pillar 2	Pillar 3	Pillar 4
Pillar name	Indicators	Contribution to EFSI policy objectives	Quality and soundness of the project:	Technical and financial contribution	Complementary indicators
		Contribution to EFSI objectives	Growth	Financial Contribution	Project-specific indicators
		Key policy objectives	Promoter capabilities	Financial Facilitation	Country-specific macroeconomic indicators
			Sustainability	EIB Contribution and Advice	Country-specific sector indicators
			Employment		

3.2.2 Use of the Scoreboard

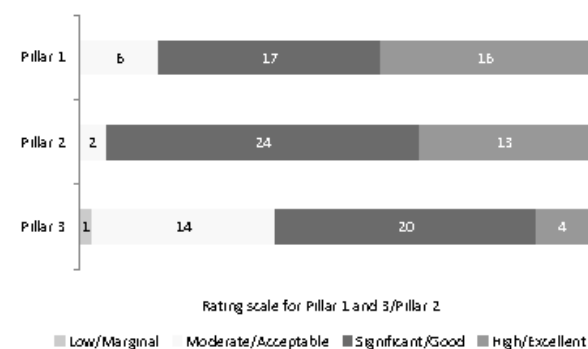
The EFSI Scoreboard is used by the IC to ensure an independent and transparent assessment of the possible use of the EU Guarantee under the IIW and to "prioritise the use of the EU Guarantee for operations that display higher scores and added value."²¹ Interviews with IC members confirmed their use of the EFSI Scoreboard and, more specifically, how they used Pillar 4 to better understand the eligibility of the projects they assess²². However, partly due to the fact that operations are presented as a pipeline (i.e. they are presented to the IC incrementally and not as a batch), the Scoreboard cannot be used as a priority setting tool²³.

This evaluation also found that the terms "value added" and "added value" were used interchangeably both in the EFSI Regulation, the Delegated Regulation and in practice. Therefore, in order to avoid confusion, this evaluation calls for the Scoreboard to instead refer to project selection criteria. The term "added value" could then be reserved for the economic added value of projects (e.g. as measured, where possible, by the ERR) or for the added value of EFSI financing them (as expressed through the additionality criterion discussed in section 3.3).

As Figure 8 shows, as of 30 June 2016, the portfolio of signed IIW operations was skewed towards the upper end of the rating scales of Pillars 1 and 2. This indicates that operations are, at the time of appraisal, deemed to be strongly aligned with EFSI policy objectives and are of high quality.

Pillar 3 scores were largely concentrated in the moderate to significant range with fewer operations attaining the highest rating.

Figure 8. Scoreboard results for the IIW's 39 signed operations (as of 30 June 2016)



²¹ EC Delegated Regulation (EU) 2015/1558 on the establishment of a Scoreboard of indicators for the application of the EU Guarantee, 22 July 2015.

²² As the deliberations of the IC are confidential, it was not possible to perform a document analysis on the use of the Scoreboard, hence, these findings are solely based on interviews.

²³ A similar observation was already made in the Evaluative Opinion provided by EV on the 3PA tool used by the Bank to assess projects.

All of the eligible sectors listed in Article 9(2) of the EFSI Regulation were covered by at least one EFSI operation. The aggregation of Scoreboard data also confirms that IIW operations are, thus far, largely focused on the development of the energy sector.

Article 6 of the EFSI Regulation stipulates that EFSI is to support projects that are economically viable according to, when possible, a cost-benefit analysis following Union standards. Pillar 2 includes the ERR for 19 out of the 39 EFSI operations signed under the IIW for the period ending 30 June 2016²⁴. The ERR of 13 of these 19 projects is above 10% (good to excellent), three have an ERR of 7-10% (acceptable to good), and three have an ERR of 3.5%-6.9% (marginal to acceptable). The interviews with IC members confirmed that the ERR is taken into account when assessing the eligibility for the EU Guarantee.

The following table provides aggregate figures for some of Pillar 4's project-specific indicators for the 39 projects financed by the EIB under EFSI's IIW.

Table 3. Selected Pillar 4 indicators for signed operations under IIW (as of 30 June 2016)

EIB/EFIS eligible investment mobilised (EUR bn)	22.39
Jobs supported	8,000
Temporary employment impact (person years)	115,985
Permanent employment impact	7,092

The above indicators measure the expected project outcomes i.e. the direct effects of the operations. They do not measure indirect or induced effects (i.e. through increased economic activity) and can therefore not measure the net impact on the economy (e.g. employment created only refers to direct jobs). It would not be possible, due to methodological and resource constraints, to measure indirect or induced expected effects in the context of a standard appraisal of individual projects.

In order to measure the net macroeconomic impact of EFSI operations on growth and employment in Europe, the EIB Economics Department has been working together with the Sevilla-based Joint Research Centre of the EC to use the Rhomolo model, a structural macroeconomic multi-sector, multi-regional model. So far, a pilot has been carried out using projects financed under the period of the EIB capital increase. The pilot confirmed the model would be adequate for measuring the macroeconomic impact of projects supported by EFSI. Further work will now be undertaken to extend the model to include intermediated operations.

Box 4. Comparing scores of EFSI and non-EFSI projects

347 EIB operations from 2014, for which the 3PA is available, were compared to the 39 EFSI operations under the IIW signed by 30 June 2016. While the number of EFSI operations is too small to be conclusive, this comparison provides insight into the qualitative differences between EFSI and non-EFSI operations.

The analysis shows that: (i) EFSI operations are expected to contribute to a higher number of EU policy objectives than non-EFSI operations (Pillar 1); (ii) operations are similar in terms of quality and soundness (Pillar 2); and, in terms of technical and financial contribution, EFSI operations are more evenly distributed over the different scores than non-EFSI operations (Pillar 3).

3.2.3 Added value under the SMEW

Under the SMEW, the EIF defines the added value of an operation in a way similar to Pillar 3, as it focuses on the *EIF's contribution to the operation* – as opposed to the contribution (or added value) of the operation to society. In applying this definition, the EIF assesses: (i) the

²⁴ Standard methodologies for ERR cannot be applied to intermediated operations (such as those under the SMEW or equity operations under the IIW), as the projects which will be subsequently financed by the intermediary are not known.

degree of difficulty for an operation to secure alternative funding (similar to the definition of additionality discussed in section 3.3); (ii) the EIF's role in structuring and advising on a deal; and (iii) the catalytic effect of the EIF (the EIF as cornerstone investor, its signalling effect, etc.) using EFSI support.

Unlike prospective operations under the IIW, whose added value is assessed by the IC and the EIB Board, the added value of operations under the SMEW are discussed at EIF Board-level. Further detail on how the IIW and the SMEW function differently in terms of their governance requirements is provided in section 3.7.

3.3 Additionality and Special Activities

According to the EFSI Regulation²⁵, "*the EU Guarantee shall be granted in support of operations that meet the criterion of providing additionality...*". Therefore, additionality is a key concept for EFSI.

The criterion of providing additionality is defined in Article 5(1) of the EFSI Regulation (see Box 5). First of all, it states that EFSI operations must: (i) address a market failure or sub-optimal investment situation and (ii) could not have been carried out to the same extent or in the same time frame without EFSI. However, the Regulation further elaborates on the definition by placing particular emphasis on the *risk profile* of the operations and the overall portfolio by stating that EFSI financing shall be considered to provide additionality to a project if it carries a risk corresponding to EIB Special Activities (i.e. has a loan grading of D- or below²⁶).

Box 5. Additionality as per Art 5(1) of the EFSI Regulation

Article 5 - Additionality

1. For the purposes of this Regulation, 'additionality' means the support by the EFSI of operations which address market failures or sub-optimal investment situations and which could not have been carried out in the period during which the EU Guarantee can be used, or not to the same extent, by the EIB, the EIF or under existing Union financial instruments without EFSI support. Projects supported by EFSI shall typically have a higher risk profile than projects supported by EIB normal operations and the EFSI portfolio shall have overall a higher risk profile than the portfolio of investments supported by the EIB under its normal investment policies before entry into force of this Regulation.

The projects supported by the EFSI, while striving to create employment and sustainable growth, shall be considered to provide additionality if they carry a risk corresponding to EIB Special Activities, as defined in Article 16 of the EIB Statute and by the credit risk policy guidelines of the EIB.

EIB projects carrying a risk lower than the minimum risk under EIB Special Activities may also be supported by the EFSI if the use of the EU Guarantee is required to ensure additionality as defined in the first subparagraph of this paragraph.

This Article of the Regulation has led to discussions on how best to ensure that EFSI provides additionality. The Regulation states that EFSI financing provides additionality to operations that are Special Activities (i.e. are high-risk), and are therefore eligible without needing to demonstrate (as is the case for non-Special Activities) that they (i) address a market failure or sub-optimal investment situation and (ii) could not have been carried out in the period during which the EU Guarantee can be used, or not to the same extent, without EFSI support.

EFSI provides additionality to higher risk operations when those operations could not have been carried out (to the same extent or within the same timeframe) because investors are not willing to take the necessary risk. In such a case, the EIB typically takes a higher risk tranche of an operation and crowds in other investors that take lower (or other) risk tranches, thereby enabling EFSI to provide additionality. However, there might be situations in which the risk profile does

²⁵ Annex II – EFSI Investment Guidelines.

²⁶ As per the Bank's Credit Risk Policy Guidelines for Europe, Special Activities comprise (a) Debt (loan and guarantee) operations, where the counterpart has a Loan Grading of D- or below, and (b) Equity type operations.

not reflect additionality, i.e. alternative structures (including less risky structures) could have been considered.

In practice, however, the EIB addresses the more comprehensive criteria of additionality for its Special Activities, and so goes beyond the requirements of the EFSI Regulation. This is evident in EFSI documentation prepared for the IC and in relation to the EFSI Scoreboard (see Box 6). Furthermore, interviews suggest that IC members, responsible for assessing whether a project is eligible for the use of the EU Guarantee under the IWW, scrutinise the additionality for all operations *including* Special Activities; as they see themselves as the guardians of the additionality principle on behalf of the EU. Finally, the EIB's Board of Directors, which approves all EIB operations receiving EFSI support, also places considerable importance on the different aspects of additionality, even if the operation qualifies as a Special Activity. This evaluation deems it positive that the EIB documents how EFSI financing provides additionality for each operation, including those classified as Special Activities.

Nevertheless, this suggests that the definition and use of additionality in relation to the Special Activities may need further clarification, particularly in Article 5(1). This would allow higher consistency in the way projects supported are documented and would mitigate reputational risk posed to EFSI.

Finally, besides the provision of additionality at project-level, there is the concept of *additionality at portfolio-level*. As previously mentioned, the EU Guarantee enhances the risk-bearing capacity of the EIB and, as a consequence, would allow the EIB to significantly increase its annual volume of Special Activities (from around EUR 4 bn to EUR 20 bn). Therefore, EFSI would allow the EIB to provide an *additional* volume of financing that is higher than the risk profile of its traditional lending, beyond what would otherwise be possible under the constraints of the EIB Statute. This is referred to as "portfolio additionality".

Box 6. Additionality in IC documentation

All of the 39 signed operations in the IWW portfolio for the period ending 30 June 2016 are Special Activities and, as per the EFSI Regulation, are deemed to benefit from the additionality of EFSI support. However, documentation prepared within the EIB in relation to these operations often address other elements of the additionality definition within the EFSI Regulation, including:

- Market failures or investment shortfalls
- Longer tenor or maturity
- Crowding in of investors (catalytic effect)
- Diversification of financing sources for the promoter
- EFSI being critical to the launch of the operation

3.4 EFSI's multipliers

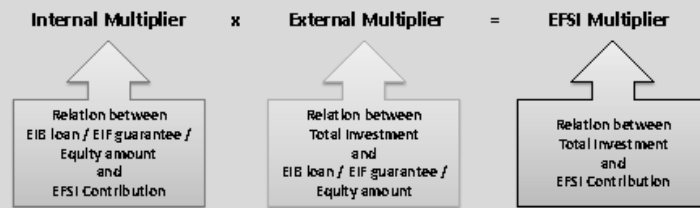
EFSI aims to use the EUR 21 bn provided by the EU and the EIB to mobilise EUR 315 bn of total investment in Europe. This implies a total multiplier of x15.

While the actual multiplier can only be measured at portfolio-level and at the end of the investment period, the EIB Group is required to estimate total investment mobilised as a KPI to monitor progress toward achieving the EUR 315 bn target. As a result, multipliers must be calculated at the level of each transaction and on an ex-ante basis. Measuring progress towards the achievement of the investment target depends on the assumptions made regarding the multipliers.

Therefore, the EIB Group has dedicated considerable resources to developing, together with the EC, a methodology to estimate the multipliers for different types of products. The multiplier methodology provides a framework for linking the underlying EFSI support available with (a) the amount of EIB/EIF financing (the so-called "internal multiplier" - IM) and (b) the amount of total investment that is expected to be generated by such financing (the so-called "external multiplier" - EM). Box 7 provides more information on the methodology as endorsed by the SB in 2015.

Box 7. EFSI's multiplier methodologies

EFSI's multiplier methodologies comprise the two independent factors outlined in the diagram below:



Methodology for the IIM²⁷

1 The Internal Multiplier (IM)

The IM represents the relationship between the EFSI contribution and the EIB's financing. It can only be measured at the end of the investment period and at portfolio-level. The EFSI contribution takes the form of a First Loss Piece (FLP) for the debt window. The FLP is expected to be 25% at the end of the investment period enabling every EUR 1 of EFSI support to lead to, on average, EUR 4 of EIB financing. Therefore, the ex-ante IM on project-level is set at x4 for all debt operations. Under the equity/equity-type window, the IM corresponds to the actual amount of EIB financing and is set at x1.

2 The External Multiplier (EM)

The formula for calculating the EM for **Investment Loans and Direct Equity/Equity-Type Operations** is as follows:

$$EM = (\text{Project Investment Cost}) / (\text{EFSI Financing Volume})$$

The calculation of the EM for **Intermediated Operations** is slightly different as it highlights the enhancement provided by co-financing at the level of the financial intermediary. This additional factor is called the "Catalytic Effect" (CE), which is to be multiplied by the EM on the project-level (EM*). Hence the formula is as follows:

$$EM = (\text{Catalytic Effect; CE}) \times EM^*$$

$$EM^* = (\text{Project Investment Cost}) / (\text{Financing Amount from Intermediary})$$

$$CE = (\text{Financing amount from Intermediary}) / (\text{EFSI Financing Volume})$$

Methodology for the SMEW²⁸

1 The Internal Multiplier (IM)

- **COSME LGF:** fixed at x1, as this capped guarantee product does not require any internal co-financing;
- **InnovFin SMEG:** fixed at x5, as the uncapped guarantee requires EIF second loss coverage on top of the estimated first loss (20%) covered by the EFSI contribution; and
- **The RCR Mandate:** expected to be, on average, x2.5, and has a minimum IM of x1.05 due to the EIF's co-investment obligation under the mandate. Therefore, the RCR Mandate has the only variable notional IM.

2 The External Multiplier (EM)

The calculation of the EM for the SMEW is based on the following components, which vary by SMEW product:

- Financing provided by Financial Intermediaries to SMEs due directly to EIF support (EM1);
- Adjustments for top-ups of existing equity investments, non-EFSI eligible components (e.g. investment in ineligible geographies), and joint EIB-EIF transactions; and
- Additional investments or financing in the SMEs (EM2), thereby representing the ratio between the mobilised financing volume and the resulting eligible mobilised investment made by SMEs, small mid-caps etc.

Product	IM		EM1		Adjustments		EM2		TM
COSME LGF	1	x	Min. 20	x	$\frac{1}{CCR}$ if any**	x	1.4	=	Min. 28
InnovFin SMEG	5	x	Min. 2	x	$\frac{1}{CCR}$ if any**	x	1.4	=	Min. 14
RCR	2.5	x	2.4 to 3.2	x	0.75	x	2.5	=	11 to 15

**Counter-guarantee rate. Consequently counter-guarantee transactions show higher total multipliers.

²⁷ Joint proposal by the EC and the EIB (2015) EFSI Multiplier Methodology Calculation, Document 06-2015, SB/04/15.

²⁸ Joint proposal by the EC and the EIB (2015) EFSI Multiplier Calculation Methodology, Document 13-2015, SB/06/15.

The development of the methodology has led to animated discussions because, as new products are developed, the corresponding multiplier methodology needs to be defined, and the underlying assumptions need to be tested and adjusted as needs be (see Box 8). In addition, the target of EUR 315 bn of total investment mobilised may also create incentives for defining multipliers that facilitate its achievement. Hence, the focus on multipliers and on reaching the investment target should be a means to an end, rather than an end in itself, and should not detract from what is as important: the appropriateness of the projects financed.

Box 8. The case of the “RE Fund”

The “RE fund” (fictive name) is a fund primarily targeting equity and mezzanine-type investments in renewable energy production and transmission. The fund had three rounds of funding; the EIB participated in the third one.

Initial documentation, before the finalisation of the multiplier calculation methodology, showed an EFSI Multiplier of x40 for this operation. Such a high multiplier underlined the need to revise the methodology for this type of operation: it was decided to exclude all fund closings prior to the EIB’s participation. The final EFSI Multiplier reported under the new methodology was x7.8.

This example illustrates the complexity of the methodology and how some changes can have a significant impact on the calculation of total investment mobilised. Therefore, considerable efforts are made, as new products are developed, to make the methodology more sound and robust.

Finally, the case of the “RE fund” illustrates how methodological changes can lead to a five-fold difference in the multiplier and the importance of demonstrating that EFSI support actually induced (or mobilised) the investment of others. Thus, the EIB should continue to explore and document with clients how, in their opinion, EFSI financing was responsible for mobilising other investors, as this would facilitate a better assessment of the extent to which EFSI is achieving its policy objectives. However, it must be acknowledged that the multiplier and its corresponding documentation are illustrative and cannot demonstrate causality between EFSI financing and other sources of financing.

3.5 Private finance mobilised

The decline in investment in the EU over the period 2007-2013 underpinned the rationale for establishing EFSI. As per its Regulation, EFSI is expected to maximise where possible the mobilisation of private sector capital. In doing so, private finance mobilised has been established as an EFSI KPI. For the period ending 30 June 2016, of the EUR 66.14 bn of investment mobilised by EFSI, EUR 41.16 bn (62%) was tied to private finance (see Table 4). This is positive, however, it is important to maintain the ambition of crowding in *private* investment to address the challenges at the origin of the IPE. In addition, it is difficult to pass judgement on whether EFSI is on track in terms of private finance mobilised as no target was set for this KPI.

Table 4. Private finance mobilised (EUR bn)²⁹

		Total	Debt-type operations	Equity-type operations
IIW	Private finance	14.43	10.65	3.78
	Total	22.39	17.78	4.60
	Share	64%	60%	82%
SMEW	Private finance	26.73	12.22	14.51
	Total	43.75	21.12	22.63
	Share	61%	58%	64%
Aggregated	Private finance	41.16	22.87	18.29
	Total	66.14	38.90	27.23
	Share	62%	59%	67%

²⁹ Consolidated figures are only produced twice a year by the EIB in an operational report submitted to the EC. The latest period end date is 30 June 2016, to be reported on by the end of September 2016. Most figures in this evaluation are based on the figures of the *draft* operational report for this period. Therefore, figures may differ from those in the final version of the operational report. The amount of private financing mobilised is calculated as per the KPI/KMI methodology endorsed by the SB.

3.6 Co-ordination, complementarity and coherence

The IPE stresses the need to maximise the impact of limited public resources by crowding in more private investment. As per its Regulation, EFSI is required to be complementary to, and coherent and coordinate with, a variety of interventions including: the objective of cohesion; EU programmes and instruments; traditional EIB activities; and all other actions for reducing EU investment gaps (e.g. those relating to the IPE). Doing so is expected to create synergies, ensuring that the combined impact of EFSI and its related interventions is greater than the sum of their parts.

The EFSI Regulation, however, is silent on the practical arrangements needed to ensure complementarity and create synergies. No prior assessment was made to understand how EFSI-related interventions at EU, national, regional or local-levels could benefit from each other. Complementarity is therefore sought during implementation through "learning-by-doing", and less by design.

3.6.1 Synergies with IPE Pillars 2 and 3 can be enhanced

Pillar 2 – European Investment Advisory Hub

In the context of the IPE, the EC and the EIB have decided to strengthen the investment advisory services they provide to public authorities and project promoters in the EU by establishing the EIAH. The EIAH, launched in September 2015, constitutes a key entry point for public authorities and private promoters to find advice, either under existing advisory programmes (Jaspers, InnovFin Advisory, Fi-Compass, etc.) from new or expanded EIB support services, or from the Hub's relevant external partners. The EIAH is not solely focused on EFSI but is nevertheless expected to support it by enhancing the capacity of public authorities and project promoters to identify, prepare, structure and implement strategic projects, and enhance the effective use and potential leverage of EU programmes.

At the time of writing this report, the EIAH was in the process of refining its strategy, based on the experience gained so far. It has been operational from the second half of 2015 and, as of end of July 2016, had received 239 requests (of which 180 were project-related) originating from 27 Member States, with about two-thirds of the requests came from the private sector. Thus far, 26 projects in the EFSI pipeline have benefitted from the Bank's advisory support during their development. Those projects were not advised by the EIAH, however, they demonstrate demand for such support under EFSI.

The way in which the EIAH could contribute further to EFSI is expected to be addressed in the EIAH strategy which is currently under development. This may include the identification of potential EFSI projects, advisory support to individual EFSI projects, and possibly support to dissemination and promotional activities, particularly for investment platforms for which the EFSI Regulation assigns an advisory role to the EIAH.

Pillar 2 – European Investment Project Portal

Various stakeholders have claimed that the lack of a transparent forward-looking pipeline of EU investment projects has acted as a barrier to investment in the EU. In response to this, a publicly available web portal was set up so that EU-based project promoters are given the opportunity to show their projects and investors can obtain information on those projects³⁰. The EIPP has been operational since May 2016 and, therefore, it is too early to assess its potential contribution to EFSI. Moreover, the initial idea underpinning the EIPP has transitioned from providing a quality label to investment projects – which would require some sort of assessment – to more of an information exchange portal, primarily connecting private investors and project promoters. In the EIPP's current form, potential synergies with EFSI and its pipeline are deemed weak by both the EIB and Commission staff.

³⁰ The EIPP is composed of a database of project fiches (structured project summary information), an interactive project map, and an interactive project directory in a tabular form.

Pillar 3 – Improving the investment environment

The 3rd Pillar of the IPE is expected to have a major impact on investment in the EU, as it includes efforts to make EU regulation more investment-friendly by removing national regulatory barriers and increasing harmonisation of the investment environment. A key component is the Capital Markets Union for which the EC presented an Action Plan in September 2015.

The EC has also analysed the main challenges to investment at national-level and has elaborated country-specific investment profiles for each EU Member State with the aim of them undertaking structural reforms. These challenges to investment have been included as a priority in the context of the 2016 European Semester. However, this is ultimately a voluntary process by which Member States could take actions, based on non-binding recommendations, hence, reducing the possibility of EU-level stakeholders inducing national reforms. Interviews suggest that regulatory barriers are not sufficiently tackled at present to contribute to a more investment-friendly environment.

In sum, the evaluation finds that complementarity between the different IPE Pillars is still incipient. Increased complementarity would enhance EFSI's implementation and, therefore, better enable the IPE to achieve its objectives. The EIB Group has a high degree of influence on the functioning of the EIAH because it is managed by the Bank on behalf of the EC, but it has limited influence on the EIPP or on the IPE's 3rd Pillar, other than contributing to general reflections on barriers to investment³¹.

3.6.2 New forms of cooperation emerge around EU funds

Connecting Europe Facility and Horizon 2020

The Connecting Europe Facility (CEF) and the Horizon 2020 (H2020) are programmes managed by the EC. Some of the funds that constitute EFSI's EU Guarantee originate from the budgets of these programmes, however, these budget lines under EFSI no longer have dedicated CEF or H2020 policy objectives.

The evaluation found that there are both risks and opportunities posed by the relationship between the EIB and those programmes. With regard to the risks, and in view of the pressure to deliver EFSI, some evidence indicates that the EIB privileges EFSI operations over CEF or H2020 operations. The potential competition between EFSI and the existing mandates (or other EIB activities, more broadly) is part of the allocation assessment made by the EIB, and should be carefully monitored.

The opportunities for synergies between the programmes and EFSI reside in the fact that the EC could use CEF and H2020 funds to finance the First Loss Piece (FLP) of operations (as the EIB does not finance FLPs under EFSI), while the EIB would finance mezzanine tranches under EFSI. Discussions between the EC and the EIB on such financing structures are at an advanced stage.

Structural Funds

The EU Structural and Investment Funds (ESIF) is the common designation for five European funds³² which operate under a common legal framework as well as under fund-specific regulations. Taken together, these funds have sectoral policy objectives which, to a certain extent, map to those of EFSI. There are, therefore, opportunities for complementarity between the interventions.

³¹ For instance, the EIB established an internal working group on barriers to investment in relation to the IPE 3rd Pillar.

³² European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The EFSI Regulation highlights the importance of complementarity with the ESIF, as EFSI projects should be "*consistent with Union policies, including [...] economic, social and territorial cohesion*". At the same time, the Regulation provides little orientation on how to achieve such complementarity. Reflection on potential complementarity between EFSI and ESIF started in the second half of 2015, when EFSI was already underway. The EC published a brochure at the end of February 2016, which explains the possibilities for combining EFSI and ESIF financing. This is currently the only guidance that exists on the combination of ESIF and EFSI funds, and the EIB refers to this brochure on its intranet site as part of the EFSI toolbox.

EFSI and ESIF can in theory be combined at different levels (project-level, financial instrument, investment platform, or combinations of those), as long as their respective eligibility criteria are satisfied. Combining ESIF and EFSI resources in "layered funds" is similar to the structure described for CEF and H2020 above: the ESIF funds would finance the FLP, while the mezzanine tranche would be financed by the EIB (backed by EFSI support), and the senior tranche would be financed by other investors.

However, by the time of this evaluation, few EFSI operations had received complementary finance from ESIF funds. Although it lies outside the scope of this evaluation to assess this issue in depth, certain barriers may exist that would hamper ESIF-EFSI co-financing. For instance, the financial structures through which co-financing could take place may seem complex to Managing Authorities with little experience in financial engineering. This may discourage authorities from proposing co-financing. In addition, there may be a trade-off between (i) combining EFSI with other EU instruments and (ii) maximising total investment mobilised, as EFSI's KPIs-KMIs methodology requires that EU co-financing is deducted from the total amount of investment mobilised by EFSI.

After one year of EFSI implementation, it is an appropriate time to assess the needs and barriers to combining EFSI and ESIF funds. In addition, there may be a role for Advisory Services to provide support to Managing Authorities in order that EFSI can better reach out to Central and Eastern European Member States (see section 2.2).

3.6.3 With National Promotional Banks and National Promotional Institutions

As a group, NPBs/NPIs are quite heterogeneous: they have different sizes and areas of expertise, and can have different structures (i.e. as a government agency or a fully-fledged bank, partially or fully state-owned). Due to their local knowledge and expertise, NPBs are considered strategic partners of the EIB Group in the context of attaining EFSI's objectives. In return, the EIB can provide the capacity to: assess, manage and structure large projects; crowd-in international investors; share knowledge at EU-level; and provide an overall view on EU policies and objectives.

The EFSI Regulation underlines the importance of the EIB Group's cooperation with NPBs and NPIs. Hence, shortly after the adoption of the EFSI Regulation, the EC released a Communication to describe the role of NPBs in supporting the IPE.

Initially it was foreseen (recital 10 of the EFSI Regulation) that Member States or NPBs/NPIs could make one-off contributions to EFSI by contributing to the Guarantee Fund. At the launch of EFSI, a cumulative contribution of up to EUR 42 bn was announced by various Member States, NPBs and NPIs. However, the support of the NPBs to the IPE eventually shifted from contributing to the guarantee to cooperating at the level of investment platforms or individual projects. In response to this, several instruments have been developed to cater for the variety of NPBs/NPIs (see Figure 5), including the EIF-NPI Equity Platform, and the EIF and NPIs Securitisation Initiative.

As Table 5 shows, 69 of EFSI's 202 operations involve NPB co-financing. These operations account for total EFSI financing of EUR 3.36 bn, which alongside NPB financing and other investment, is expected to mobilise EUR 23.43 bn of total investment.

Table 5. Co-financing with NPBs³³

		Number of operations involving NPB co-financing	Amount of EFSI financing in operations involving NPB co-financing (EUR bn)	EFSI financing mobilised with NPBs (EUR bn)
IIW	With NPBs	13	1.20	5.68
	Total	39	4.72	22.39
	Share	33%	25%	25%
SMEW	With NPBs	56	2.16	17.76
	Total	163	5.73	43.75
	Share	34%	38%	41%
Aggregated	With NPBs	69	3.36	23.43
	Total	202	10.45	66.14
	Share	34%	32%	35%

Interviews with NPBs/NPIs and EIB Group staff indicate that the recent deployment of new products and investment platforms is increasing the pipeline of projects that NPBs/NPIs may co-finance. Therefore, while it is too early to assess the involvement of NPBs/NPIs, it is expected that their co-financing of EFSI operations will increase.

In addition to participating in EFSI, some interviewees from NPBs/NPIs explained how the EIB and the EIF had facilitated increased networking and information exchange amongst some of the NPBs/NPIs, who had more limited contact with one another in the past. This enabled those NPBs/NPIs to learn from each other and better work together, including within the context of EFSI.

3.7 Governance of EFSI

The adequate functioning of EFSI's governance structure is key to achieving EFSI's objectives. Although EFSI's governance structure is added to the EIB Group's governance structure, the EFSI Regulation indicates that they should not encroach upon or interfere with the decision-making process of the EIB or the EIF³⁴. Therefore, it is important to analyse how the two governance structures complement one another in order that EFSI reaches its objectives.

3.7.1 Key components of the governance structure

EFSI's dedicated governance structure is described in the EFSI Regulation, and is supported by provisions relating to reporting, accountability and evaluation. The Agreement between the EC and the EIB also specifies technical and administrative conditions for the management of EFSI.

EFSI's governance structure should complement the EIB Group's governance structure given that the identification, appraisal and approval of EFSI projects relies on the regular project cycle of the EIB, adding rather than replacing specific steps. This decision was taken to ensure a swift set-up and to benefit from the funding and expertise in lending and risk management from the EIB's existing structures. EFSI's governance structure includes a SB, an IC and a management team comprising a Managing Director (MD) and the Deputy Managing Director (DMD). Further to this, the EIB set up a number of entities to support the implementation of EFSI.

³³ Consolidated figures are only produced twice a year by the EIB in an operational report submitted to the EC. The latest period end date is 30 June 2016, to be reported on by the end of September 2016. Most figures in this evaluation are based on the figures of the *draft* operational report for this period. Therefore, figures may differ from those in the final version of the operational report. Please also note that the list of NPBs for the purposes of this reporting is yet to be confirmed by the EC.

³⁴ EFSI has had limited impact on the EIF in terms of governance; the instruments used by the EIF for EFSI operations have to be jointly approved by the SB and the MD, after consulting the IC. This lighter approach is mainly due to the will of the legislator to avoid duplicating the governance structure of the COSME and InnovF in products.

Steering Board

The SB has four members: three appointed by the EC (currently EC senior management from DG ECFIN, DG ENER and DG GROW) and one appointed by the EIB (currently a Vice President). The SB is responsible for determining EFSI's strategic orientations. In this respect, it ensures strategic alignment and consistency at portfolio-level and across all EFSI operations. In doing so, it sets the rules necessary for EFSI's functioning, supervises the fulfilment of EFSI's objectives and regularly monitors that IC members respect their duties. The SB is also responsible for appointing EFSI's IC, selecting candidates for the MD and DMD positions, and regularly organising a consultation with relevant stakeholders on the orientation and implementation of EFSI.

The SB has been in place since July 2015, and is fulfilling its role of overseeing the overall implementation of EFSI. It has been influential in determining the risk profile of EFSI and has endorsed operating policies, procedures and EFSI's Strategic Orientation. It has also clarified important topics (e.g. orientations for the hybrid portfolio or cooperation with NPBs). In addition, the SB is currently organising its first consultation with external stakeholders. It was initially expected that the SB, being a strategic body, would meet three times a year but 14 meetings have already taken place within nine months. While this may be justified by the number of decisions needed in the first months of EFSI's implementation, it is expected that once EFSI reaches cruising speed, the frequency of SB meetings will align with initial expectations.

Investment Committee

The IC comprises eight independent experts, appointed by the SB, together with the IC's Chair (EFSI's MD). The IC is responsible for approving the use of the EU Guarantee for operations proposed by the EIB, including those with NPBs and NPIs. All operations should comply with the requirements set out in the Regulation and be in line with EFSI investment policies. The IC is also consulted on new products for the SMEW. To ensure an objective and transparent assessment by the IC, the EC adopted, following discussions with the EIB, a Delegated Regulation establishing a Scoreboard of indicators to be used by the IC (see section 3.2).

The IC has been operational since January 2016. Given that IC experts are external to the EIB and the EC, they have little (if any) familiarity with the EIB project cycle or processes, which resulted in an initial workload for EIB Services that was above expectations. Nevertheless, their understanding of how the EIB operates has quickly progressed

IC members analyse, as expected, the appropriateness of the use of the EU Guarantee for each IIW operation proposed by the EIB. Moreover, they analyse in detail the expected additionality that the Guarantee would provide. Interviews suggest that this is also the case for operations, such as Special Activities, which can *de facto* be considered as benefitting from the additionality provided by EFSI support (see section 3.3). Lastly, the IC analyses the relevance and contribution of prospective IIW operations to EFSI objectives.

Managing Director and Deputy Managing Director

The MD is responsible for the day-to-day management of EFSI and is accountable to the SB. The MD is assisted by a DMD³⁵. The MD is chairperson of the IC, is responsible for facilitating the IC's work, and clarifying their responsibilities when needed. In particular, the MD prepares and chairs IC meetings, ensures the production of relevant documents (supported by the EFSI Secretariat), facilitates communication and ensures effective feedback loops between EIB Services preparing operations and the IC. In addition, the MD is responsible for external communication, and is the spokesperson of EFSI for all stakeholders, including the European Parliament, the Council, the EC and the EIB. The MD, together with the Chairperson of the SB, can also be asked to address the European Parliament and the Council to report on the performance of EFSI.

³⁵ The role of the DMD has not been assessed as the DMD has been absent since not long after her appointment.

The MD's office has been functioning since November 2015, and consists of six staff (MD and DMD, two advisors and two assistants). The MD has been an active external spokesperson for EFSI towards political bodies and the wider public, and has had an active role in promoting EFSI. Internally, one of the MD's main responsibilities has been fostering an IC team spirit, with all members having the same level of understanding of the Regulation and of EIB procedures, and establishing a dynamic and efficient relationship between the IC and the EIB Group. For this reason, several presentations for the IC were organised, especially during the IC's induction phase. In this respect, the MD's experience of working at the EIB³⁶ is valuable, as it would have been difficult for someone not familiar with the EIB Group to support the IC in getting up to speed in terms of understanding both EFSI and the EIB Group.

The role of the MD's office has evolved in view of the emerging requirements relating to the functioning of the IC and the MD/DMD's responsibilities, including the regular reporting obligations to the SB. The MD's office also facilitates the process by which IC members ask for additional information from the EIB project teams ahead of IC decisions, and provides feedback to the EIB Services on the IC members' requirements and recommendations for improving the quality of EFSI-related project documentation. This was exemplified by the recent revision documentation used by IC members to formulate their judgment on whether an operation is eligible for the EU Guarantee. With guidance from the MD's office, the document was fundamentally revised to improve readability and focus the information provided on the needs of the IC.

Whereas the MD's role with regard to the IC and outside bodies is clear and satisfactorily implemented, the role as "day-to-day manager" is less clear and, to some extent, overlaps with those of other EIB entities with EFSI responsibilities.

EFSI Secretariat

Although not requested in the EFSI Regulation, but proposed in the EFSI Agreement, the EIB decided to set up a dedicated EFSI Secretariat to assist all EFSI governing bodies. It is structured and organised in a similar way to the secretariats of other EIB governing bodies. It plays a crucial coordination role, but also the different roles and independence are respected, especially in terms of the relationship between the lender (EIB) and the guarantor (EU). The Secretariat also:

- Elaborates draft internal procedures for the SB and IC;
- Ensures the organisation and follow-up of SB meetings and, in close cooperation with the MD office, of the IC meetings;
- Ensures deadlines and procedures are respected;
- Participates in the revision of the EFSI Agreement;
- Organises a weekly meeting with relevant EIB Services (and other stakeholders as needed) to coordinate different EFSI tasks;
- Manages the IC portal and facilitates communication between the IC and EIB Services on operations examined by the IC; and
- Coordinates works on information requests from external stakeholders related to EFSI governance and governing bodies.

... and the EIB

As previously mentioned, EFSI's structures are not stand alone but are additional to the EIB's organisation and project cycle management. This includes the regular EIB identification, appraisal and approval processes involving the different EIB Services, the EIB's Management Committee and the EIB's Board of Directors. In addition to its regular organisation, the EIB established a dedicated EFSI unit (within the recently created Mandate Management Department) to be responsible for co-ordinating all EFSI operational activities. *De facto* it works both on strategic issues (e.g. preparation, jointly with the EC, of the draft EFSI Strategic Orientation for the SB) as well as operational issues (as a link between the Bank's Services and

³⁶ The EFSI MD is a former EIB Vice President.

the MD Office). It also collects information for the EIB and prepares the reports needed to fulfil the obligations to the European Parliament, the Council and the EC.

Finally, the EIB President, as well as the Vice President responsible for EFSI, play a crucial role in the advocacy and publicity of EFSI. This is demonstrated by the high-level coordination of EFSI between the EC and the EIB, their frequent presence at EFSI-related events, including contract signature ceremonies, extensive external communication as well as communication on the importance of EFSI within the Bank.

3.7.2 EFSI and EIB operations

EFSI operations are subject to processes and procedures which come on top of EIB standard processes. Given the time constraints to implement EFSI, the EIB endeavoured to keep additional EFSI-specific procedures as light as possible in order to avoid unnecessary additional work and administrative burden, while efficiently implementing EFSI³⁷. Yet these procedures still require a major effort from the Bank, and there is scope for them to be further streamlined.

The additional steps (listed in Box 9) increase Services' workload and place additional time constraints on the EIB, as there are more intermediate approval steps, stakeholders involved in the process, documents produced, and presentations (e.g. to the IC).

More specifically, IC documentation has undergone several changes as the IC and the MD Office have become increasingly precise on the type of information required for the IC to make their judgment.

However, despite Board and IC documentation differing in terms of content and purpose, due to the Board (as lender) and IC (as guarantor), some sections (e.g. project descriptions) are duplicated in both sets of documents. Efforts should be made to ensure consistency of common content where possible.

The IC intervenes between the MC and the Board's approval of an operation. Although the approval of EFSI eligibility by the IC has clearly generated more work for the EIB Services, it has so far not delayed the overall validation process. IC approval does however influence the workflow, as EIB staff strives to answer questions put by the IC within 48 hours, although technically it must only provide written answers two days before a scheduled meeting. This proves to be particularly challenging for the EIB Services. It might be beneficial if, like with the MC, the appraisal team could be present at IC meetings to answer any questions immediately. However this could also be burdensome on EIB Services.

The various EFSI-related documents produced are validated several times at different levels in the hierarchy. Interviews suggest that multiple VP validation (VP for EFSI for clearance, VP for geography and, sometimes, VP for a sector) constitutes a major bottleneck delaying the validation of operations. Some operations await multiple VP validations at pre-appraisal stage, then again at appraisal stage. As such, the number of validations could be reduced.

EFSI has so far had limited impact on the EIF's operation lifecycle, as the roles and responsibilities for EFSI governing bodies are more limited for the SMEW than for the IIW. For

Box 9. Main additional steps for EFSI projects

- Decision on deal allocation in cases where operations may be eligible for support under EFSI or other mandates (such as CEF or InnovFin)
- Preparation of additional documentation for the IC and EC
- The approval of eligibility for EFSI support by IC
- On occasion, presentations by Services to the IC
- Additional provisions in legal documentation
- Clearance at appraisal and final approval stage by the Vice President (VP) responsible for EFSI
- Reporting on EFSI by the Bank

³⁷ This is in line with the intention of the legislator, who was targeting "a swift set-up [allowing EFSI to benefit from the funding and expertise in lending and risk management from the EIB's existing structures]", COM(2014) 903 final on An Investment Plan for Europe.

the SMEW, the products used by the EIF for carrying out EFSI operations have to be jointly approved by the SB and the MD, after consulting the IC. This lighter approach for the SMEW's governance structure is mainly due to: the will of the legislator to avoid a double governance structure for the COSME and InnovFin products.

3.7.3 Three issues merit further reflection

The governing bodies envisaged in the Regulation were set up as expected and are operational. So far, they are supporting the swift and efficient implementation of EFSI. However, three issues have been identified that merit further reflection.

Roles and responsibilities

The MD's office has a very lean structure and has no direct reporting line with the EFSI Secretariat, which is positioned within the EIB and therefore reports to EIB structures. Both are responsible for ensuring the appropriate functioning of EFSI, hence there is the risk of their roles overlapping. During the first half of 2016, both bodies started to work increasingly well together and began clarifying their respective roles. Currently the EFSI Secretariat is primarily in charge of coordination and the functioning of the structure, while the MD office is advising the MD, and preparing meetings and events. This evaluation, nevertheless, finds that further clarification on their respective roles, and the ways in which they can work more closely together, will help to avoid any inefficiencies.

Furthermore, the reporting, accountability and general interaction between the MD and the SB are light. For instance, the more systematic participation of the MD in SB meetings would enhance his capacity to manage EFSI as per the SB's orientations. Conversely, the EC representatives to the SB do not have a view on important issues such as the pipeline of operations, which could affect its capacity to provide forward-looking orientations and to correct trends at the portfolio-level when needed. In addition, instead of using the MD as the main channel of information, members of the SB (often in their EC capacity) sometimes communicate directly with EIB Services, and so there is a risk that they are becoming too operational in this respect.

Finally, the roles and responsibilities of the MD's office, the EFSI Secretariat, and EIB Services working on EFSI could be made more explicit to avoid potential overlaps, thereby increasing efficiency. Initial proposals to this end have recently been made, but need to be further worked out and implemented.

Independence, conflict of interest and insider knowledge

Prior to the appointment of the IC members, from April to December 2015, EC staff decided which projects were eligible for the use of the EU Guarantee. However, having an independent IC was a key requirement to ensure transparent and independent decision making on the eligibility of projects for the EU Guarantee. Therefore an independent body, in the form of the IC, was foreseen in the legislation.

Following good practice, a formal procedure addresses the potential conflict of interest that IC members may have in relation to the operations they analyse. According to this procedure, and based on a summary provided in advance, IC members must declare any potential conflict of interest before they receive project documentation. If such a risk is identified, the IC member does not receive the documents (their access to the portal is blocked) and does not participate in the discussions, nor the final vote.

A procedure to avoid conflict of interest was also established at MD-level. During the meetings of the EIB's Management Committee, which the MD can attend as an observer, the MD needs to leave the room when EFSI operations are discussed.

The SB is an entity representing the EC and the EIB, with three of its four members currently sitting on the EIB or the EIF's Board of Directors. In this capacity, they take part in the approval

of the EIB or the EIF's strategies and projects, including EFSI projects. This situation raises the question of potential conflicts of interest currently not addressed by specific procedures.

Lines of communication

The quality of the information IC members receive has continually improved over the first months of EFSI implementation and is now considered as satisfactory by them. Quality of information is key as IC members make their assessment based solely on the information that the EIB provides. The number and types of questions raised by the IC are an important indicator for the Services on the quality of documents produced and the information needs of IC members.

However, feedback loops can improve, as in spite of the efforts of the EFSI Secretariat and the EFSI unit's "debriefing" sessions, EIB operational staff do not receive the type of feedback from IC discussions that could improve future project preparation. Further to this, *after the IC decides if a project may use the EU Guarantee, the IC does not receive information on whether the EIB Board approved the project. IC members believe that such information would be useful for their continuous learning and would improve their decision making process.*

Multiple communication lines have also been identified, and represent a risk for the effectiveness and efficiency of EFSI. In particular, numerous interviews suggest that the EC, as well as the SB, communicate directly with EIB Services and its senior management. While it is understandable that inter-institutional discussions are carried out directly between the EC and the EIB, discussions on the day-to-day implementation of EFSI should involve the MD and the EFSI Secretariat. Otherwise the ability of the MD and the Secretariat to perform their functions may be hindered.

4. IMPACT ON THE EIB GROUP

As early as November 2014, the EIB Group, and in particular the EIB, understood that EFSI would require substantial institutional effort and a considerable broadening in mind-set, risk culture and strategy.

EFSI is indeed having a significant impact on the EIB Group, which has made a major effort to accommodate EFSI and bring it rapidly up to speed, under tight time constraints. The EIB Group had a substantial recruitment drive, made several adaptations to its internal organisation, adopted several new processes and procedures, and designed a series of new, riskier, products, which should generate higher leverage and are expected to be rolled out in the second half of EFSI (the latter were discussed in section 2.4). EFSI has started to trigger a transformational change within the EIB by increasing awareness of the importance of impact, additionality and leverage of its products.

4.1 Human resources

The EIB Group's human resources have increased because of EFSI and further increases are expected in the coming years. The Bank started to plan EFSI staffing at the end of 2014, when the EIB's Personnel Directorate presented a substantial staffing plan that anticipated the IPE. A strong increase in recruitment was justified by the idea that EFSI projects would be smaller (in terms of average volume), riskier and more complex than traditional EIB operations. Moreover, the evaluation also finds that, on top of the increased complexity of operations, EFSI generates additional work, as it requires additional reporting on top of the EIB's project work flow³⁸, and numerous additional interactions with the different EFSI governing bodies. This additional workload also applies to the newly created EFSI governing bodies. Based on the experience gained with EFSI operations so far, including with new products, it may be the appropriate moment to reassess the workload and staffing needs implied by EFSI for the remainder of its investment and monitoring period.

In 2015, the Bank hired 353 new staff, up 42% compared to previous years hiring, an increase attributed to EFSI. This increase in recruitment required a thorough re-design of the recruitment function, processes and tools (recruitment outsourcing, digital interviews, consistent pre-screening and generic recruitment campaigns). In order to deliver the SMEW, the EIF increased overall staff numbers by 50% as compared to 2014 figures. As in the case of the EIB, it is difficult to estimate how many staff exactly work on EFSI-related matters, as many staff will be working on both EFSI and non-EFSI related activities.

New hires were mainly on the account of the Operations Directorate (OPS) and the Secretariat General (SG) as the latter hosts the EIAH. With the exception of SG, which saw a slight increase in staff, the distribution of staff over Directorates has so far remained roughly the same, suggesting that EFSI has impacted all phases of the project cycle and, therefore, all parts of the Bank. Interviews suggest that new hires are generally put to work on more traditional EIB, non-EFSI, products, whereas the more complex EFSI products are offered by more experienced staff.

The Bank overall (i.e. the Personnel Directorate as well as the hiring Directorates) has coped well with the significant challenge of recruiting and on-boarding new staff. The recruitment trend continued in the first quarter of 2016, but is slowing down – possibly due to absorption issues. At this stage, it is difficult for the evaluation to gauge whether the Bank has sufficient resources to implement EFSI successfully.

Aside from new hires, EFSI has contributed to an increase of external staff (consultants, IT consultants, lawyers in specialised fields, etc.), investment in IT and office space at the Bank.

³⁸ Induced, in particular, by IC documentation and by the specific operational and financial reporting obligations.

Within the scope, scale and timeframe of this evaluation, it is difficult to assess whether these resources are adequate for the implementation of EFSI.

On a short-term basis, new hires have been added to appraisal teams (OPS, PJ, JU and RM). In a later stage in the project cycle, restructuring teams are expected to need reinforcement as riskier deals require intensive monitoring and are more likely to require restructuring activities. Therefore, although EFSI's core operational activities will be implemented over the period 2015-2018, because of the risk profile of EFSI projects, significant post-signature activities are expected for up to 20 years thereafter. Thus, it is anticipated that staff currently allocated to OPS will move to the Transaction Management Restructuring Directorate (TMR) over time.

According to the latest information available (mid-July 2016), 199 staff have been allocated to dedicated IPE posts, both for EFSI and EIAH, of which 116 are new hires and 83 are existing staff members. These figures do not however include a redeployment of existing staff that would only spend part of their time on EFSI-related matters. The EIB intends to reassess staffing needs for EFSI (as well as EIAH) at the end of 2016.

4.2 Organisation

Aside from the continuous improvement of its processes, and the creation of a dedicated NPI team, the EIF has only been marginally impacted by its implementation of the SMEW. In contrast, the EIB has adjusted its internal organisation and several Directorates have been or continue to be re-organised. With regard to EIB Services represented in project teams:

- OPS established a temporary IPE division that performed horizontal functions during the initial set-up of EFSI, before handing over activities to the Mandate Management Department, the Operations Support Department and the New Products and Special Transactions (NPST) Department. In addition, a new operational strategy and Business Development division has been established for developing a coherent and centralised strategy, together with a product development roadmap for all EIB activities, including EFSI.
- The Projects Directorate (PJ) created a division dedicated to the impact of the Bank's lending; this division checks the 3PA and EFSI Scoreboard, figures on investment mobilised and the multipliers, and carries the responsibility for project-based impact reporting.
- The Legal Directorate (JU) has reinforced its teams for the development of new products under EFSI.
- The Risk Management Directorate (RM) has reinforced its teams to accommodate the increase of operations classed as Special Activities, as more risky operations and new products have increased the Directorate's workload.
- TMR anticipates that riskier deals will require more intense monitoring and are likely to require restructuring soon.

Other Services have also been adapted to accommodate EFSI:

- SG has established an EFSI Secretariat within its Governing Bodies Department, in order to facilitate the organisation of SB and IC meetings, the distribution of SB and IC documents, agendas and minutes and any other tasks as defined by the EFSI Agreement, the SB or the IC.
- Personnel Directorate, under Corporate Services (CS), has seen an increase in the scale of recruiting in a limited amount of time, which has led to a modernisation of the recruitment process as well as the recruiting of new staff for Personnel.
- The Finance Directorate (FI) had to make changes in their back-office systems in order to adapt to new types of transactions such as equity, quasi-equity and various other hybrid types of instruments. The resource-intensive adaptation of procedures and IT support tools is ongoing.

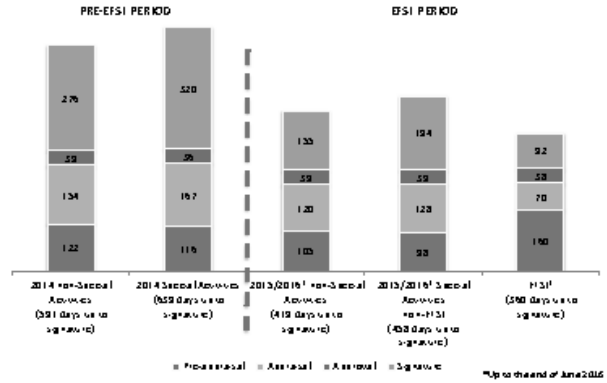
In sum, due to EFSI, the Bank has had to considerably adapt its internal structures.

4.3 Project cycle

Time has been and will continue to be a key factor in the design, development and implementation of EFSI.

EFSI's operations have specific procedures and require additional documents as compared with non-EFSI operations. Yet, as Figure 9 shows, the project cycle of EFSI operations (from due diligence to signature) is shorter than the one of non-EFSI operations and of non-EFSI Special Activities.

Figure 9. Days to signature – EFSI vs non-EFSI operations



However, the pre-appraisal of EFSI operations takes far more time. This may, to some extent, be due to EFSI operations being warehoused (i.e. they had been identified some time ago and remained in the pipeline). Yet the general perception is that EFSI projects take more time to prepare (due to the additional work upstream) but, due to the pressure to achieve the EUR 315 bn target, move quickly towards signature.

Interestingly, time to signature for non-EFSI projects and for Special Activities was shorter in 2015 than in 2014. This might point at an overall efficiency gain in terms of the processing of projects at the EIB. This would counter the suggestion that EFSI operations have had a negative effect on the processing time of non-EFSI operations.

5. CONCLUSIONS

The objectives of this mid-term evaluation are to assess the functioning of EFSI, and identify aspects that could improve its functioning. Functioning was defined as the resources used and activities undertaken to achieve objectives. The evaluation therefore assesses whether the functioning of EFSI is conducive to reaching its objectives.

The IPE seeks to address investment gaps in Europe. As part of the IPE, EFSI aims to contribute to this goal by supporting investments and increasing access to finance for SMEs and mid-cap companies.

EFSI's financial structure comprises a guarantee of EUR 16 bn provided to the EIB Group by the EU, and a capital contribution of EUR 5 bn provided by the EIB. These financial resources supply risk-bearing capacity to the EIB Group, allowing the Group to finance projects that address market failures or sub-optimal investment situations which could not have been carried out in the relevant period, or not to the same extent, by the EIB Group or under existing EU financial instruments, without EFSI support. It is also expected that EFSI would allow the EIB Group to finance more high-risk projects or riskier tranches of projects. This, in turn, would crowd in other investors.

In doing so, EFSI has a target of mobilising EUR 315 bn of additional investment in the real economy over a three-year period (mid-2015 to mid-2018). This includes both investment and SME access to finance. To reach this target, EFSI's portfolio should on average have a high multiplier: EUR 1 of EFSI support should eventually trigger EUR 15 of investment in the real economy. Further to this, it is an essential feature that EFSI financing provides *additionality* to the operations it supports.

5.1 EFSI is in place and on track to deliver its investment target

Through the joint efforts of the EC and the EIB Group, EFSI was prepared, launched and ramped up in a very short period of time. EFSI's implementation could begin rapidly as it relied on the existing structure and organisation of the EIB Group. For instance, prior to the EFSI Regulation entering into force, the EIB, in charge of implementing EFSI's IIW, was asked to warehouse projects that were potentially eligible for coverage under the EU Guarantee. Similarly, the EIF, in charge of implementing EFSI's SME Window, could use the Guarantee for its existing mandates and, as a result, warehoused 72 transactions in 2015. This allowed the EIB Group to kick-start the implementation of the initiative.

In parallel, and in addition to their existing toolbox of products, the EIB and the EIF developed new products – which are riskier and generate high multipliers – to address the requirements of EFSI. Furthermore, both organisations hired a substantial number of new staff and adapted, particularly in the case of the EIB, procedures, processes and internal organisation to accommodate EFSI. Lastly, by the end of 2015, EFSI's governance structure – SB, MD, DMD and IC – were in place as foreseen by the EFSI Regulation. Thus, *despite major time, organisational and resource constraints, EFSI is up and running.*

For the period ending 30 June 2016³⁹, i.e. one year after the entry in force of the Regulation, EFSI had approved 262 operations. These operations accounted for an EFSI financing amount of EUR 17.45 bn and represented a total investment mobilised of EUR 104.75 bn. Hence, a third of the way into its investment period (12 of 36 months), EFSI's aggregated portfolio of approved operations had achieved approximately a third of its EUR 315 bn total investment target. However, the volume of signatures was lower and stood at 21% of the overall target.

³⁹ Consolidated figures are only produced twice a year by the EIB in an operational report submitted to the EC. The latest period end date is 30 June 2016, to be reported on by the end of September 2016. Most figures in this evaluation are based on the figures of the *draft* operational report for this period. Therefore, figures may differ from those in the final version of the operational report.

Therefore EFSI is on track in terms of approved operations, but is lagging behind in terms of signatures, let alone disbursements.

The differences between the IIW and the SMEW may be explained by the fact that the SMEW used existing EIF mandates to ramp up quickly. In addition, the EIF's debt-type operations typically generate higher multipliers than those of the EIB.

The EIB and the EIF have started to look for complementarity with EC programmes, and new financing structures are beginning to emerge with programmes such as H2020 and CEF. A pipeline of operations demonstrating new forms of cooperation is also being established with NPBs and NPIs, often in the form of investment platforms. It is also expected that ESIF funds may be mobilised to this end, which could *inter alia* help EFSI to better reach out to EU Member States in Central and Eastern Europe. Yet there are few joint initiatives between EFSI and ESIF at the moment, and barriers to synergies would need to be further explored.

If past trends continue and if the EFSI strategy in terms of new products and new forms of cooperation materialise as planned, it can be expected that EFSI's target for total investment will be reached in terms of approvals, with signatures and disbursements following later.

5.2 Areas for improvement after a year of implementation

The IPE and the EFSI Regulation define a series of principles, concepts and tools, designed to support EFSI in achieving its objectives. Although these elements have been made operational, this evaluation finds that, with the experience gained, some would merit further clarification in order to better support the achievement of EFSI objectives.

EFSI within the IPE. The IPE has two other Pillars, which are expected to mutually reinforce EFSI. The evaluation finds that the benefits of potential complementarity between the different IPE Pillars are still at an early stage, mainly because Pillar 2 (focused on advisory services and information sharing) has only kicked off recently, while Pillar 3 (focused on the regulatory environment, structural reforms and removal of barriers to investment) has made only moderate progress to date. Increased complementarity would facilitate EFSI's implementation and, therefore, better enable IPE to achieve its objectives. The EIB Group has influence on the functioning of the EIAH (part of Pillar 2) because it is managed by the Bank on behalf of the EC, but has limited influence on the rest of the Pillar 2 and Pillar 3, other than contributing to general reflections on barriers to investment.

Geographical distribution of operations. As recital 13 of the EFSI Regulation states that "EFSI should seek to contribute to strengthening the Union's...economic, social and territorial cohesion", it is concerning that EFSI's aggregated portfolio is highly concentrated (92%) in the EU15, and under-serves (8%) the EU13. This is particularly problematic as most of the less-developed regions⁴⁰ in Europe are found in the EU13's Central and Eastern European countries. This evaluation can only propose hypotheses for the causes of the geographical concentration of EFSI operations at this stage. For instance, EFSI's eligible sectors, as detailed in Article 9(2) of the EFSI Regulation, may need to be expanded in order to improve the EIB Group's outreach to EU13 countries. In addition, the pressure to reach the target of mobilising EUR 315 bn of total investment might encourage the EIB Group to pursue operations in markets that are more adept at using financial instruments and structuring high-risk projects (both in the public and private sector).

Private investment. The decline in investment in the EU over the period 2007-2013 underpinned the rationale for establishing EFSI. As per its Regulation, EFSI is expected to maximise where possible the mobilisation of private sector capital. Thus far, approximately 62% of total investment mobilised by EFSI derives from the private sector, which is positive. It is

⁴⁰ EC Implementing Decision (2014/99/EU) of 18 February 2014 setting out the list of regions eligible for funding from the European Regional Development Fund (ERDF) and the European Social Fund (ESF) and of Member States eligible for funding from the Cohesion Fund (CF) for the period 2014-2020.

nevertheless important to maintain the ambition of crowding in private investment to address the challenges at the origin of the IPE initiative and to contribute to achieving its intended economic impact. Therefore, efforts should be made to increase the results achieved in relation to private sector capital mobilised. In addition, as the amount of private finance mobilised is one of EFSI's KPIs, good practice would suggest that a specific target is set.

Scoreboard, eligibility and added value. The Scoreboard is used to assess the eligibility and quality of a project. It comprises four Pillars which include a number of relevant indicators. Pillar 1 assesses the eligibility of the project with respect to policy objectives; Pillar 2 the quality and soundness of a project (including technical viability and the economic rate of return, ERR); Pillar 3 the technical and financial contribution of the EIB to the project; and Pillar 4 comprises a number of complementary indicators about the project, and the sector and country context. The report describes how the Scoreboard is used and highlights that it supports the IC in judging the appropriateness of the use of the EU Guarantee for EIB operations; however, as operations arrive as a pipeline rather than as a batch, it is not used as a priority setting tool. In view of the definitions used in the EFSI Regulation as well as the nature of the indicators used by the EFSI Scoreboard, the evaluation finds that it might be more appropriate to refer simply to project selection criteria when discussing the Scoreboard. The term "added value" could then be reserved for the economic added value of projects (e.g. as measured by the ERR) or for the added value of EFSI financing them, as expressed through the additionality criterion.

Additionality. According to the EFSI Regulation, the EU Guarantee shall be granted in support of operations that meet the criterion of additionality. Additionality is defined as the support by the EFSI of operations which (i) address market failures or sub-optimal investment situation and (ii) could not have been carried out to same extent or on the same time frame without EFSI. The Regulation also places particular emphasis on the *risk profile* of the operations by stating that EFSI provides additionality to projects that qualify as Special Activities (loan grade of D- or below). The evaluation finds that, in practice, EIB project teams document and assess additionality on the two conditions mentioned above, whether the project is a Special Activity or not. In addition, the IC and the EIB Board of Directors are placing considerable importance on the analysis of additionality. The EIB should maintain this good practice and, furthermore, make it more systematic (e.g. to develop guidelines for project teams). This will ensure that project documentation is consistent and will mitigate reputational risk posed to EFSI.

Multipliers. One of EFSI's KPIs relates to mobilising EUR 315 bn of total investment by 4 July 2018. The extent to which the investment target is achieved depends on the multiplier effect generated by EIB Group financing benefitting from EFSI support. The actual multiplier can only be measured at portfolio-level and at the end of the investment period. However, the EIB Group is required to monitor progress towards achieving the EUR 315 bn target. For this reason, the EIB Group has developed, together with the EC, a methodology to estimate the multipliers for different types of financial products. The multiplier is an important instrument to monitor progress for one of EFSI's KPIs but it is not an end in itself. Excessive focus on the multiplier and the volumes reached could potentially detract from what is as important: the quality of the projects financed. Thus, operational staff should be provided with clear strategic orientations in this respect. In addition, the EIB should continue to explore and document with clients how, in their opinion, EFSI financing was responsible for mobilising other investors. However, it must be acknowledged that the multiplier and complementary documentation are illustrative, and cannot demonstrate causality between EFSI financing and other sources of financing.

Governance. The evaluation finds that the governing bodies of EFSI have been set up and are functioning as envisaged in the Regulation: they are added to existing EIB Group structures without encroaching upon or interfering with the decision-making process of the EIB or the EIF. Furthermore, they are supporting the swift and efficient implementation of EFSI. Three aspects, however, have been identified that merit further reflection. First, the procedures to manage potential conflicts of interest should be extended to the SB, as it is already done for other EFSI governing bodies. Second, the roles and responsibilities of the MD office, the EFSI Secretariat, and EIB Services working on EFSI, could be made clearer in order to avoid potential overlaps. Third, to sustain the swift implementation of EFSI, lines of communication should be made more explicit, particularly amongst EFSI's different governing bodies, and between EFSI's governing bodies and the EIB.

5.3 A transformational change for the EIB Group

It is already possible to observe that EFSI is triggering significant change within the EIB Group. Changes include: the significant number of new staff hired; the modification of procedures, processes, internal systems and organisation; the higher risk profile and higher multipliers of newly developed financial products; the need to manage the portfolio of EFSI operations for a period of time extending well beyond EFSI's initial investment period; the requirements in terms of transparency; and the increased awareness of the need to demonstrate the impact, additionality and catalytic effect of operations. The EIB Group should reflect on the long-term implications of those changes, seizing the opportunities they present and mitigating their corresponding risks.

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